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#### DISCLAIMER

Attached please find an electronic copy of the Offering Circular dated September 20, 2006 (the "Offering Circular") relating to the offering by Octans I CDO Ltd. and Octans I CDO LLC of certain notes.

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

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

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

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

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

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

## OFFERING CIRCULAR

U.S.\$975,000,000 Class A-1 First Priority Senior Secured Floating Rate Notes Due 2041  
U.S.\$82,500,000 Class A-2A Second Priority Senior Secured Floating Rate Notes Due 2041  
U.S.\$67,500,000 Class A-2B Third Priority Senior Secured Floating Rate Notes Due 2041  
U.S.\$60,000,000 Class B Fourth Priority Senior Secured Floating Rate Notes Due 2041  
U.S.\$80,000,000 Class C Fifth Priority Senior Secured Floating Rate Notes Due 2041  
U.S.\$15,000,000 Class D Sixth Priority Mezzanine Secured Floating Rate Notes Due 2041  
U.S.\$60,000,000 Class E Seventh Priority Mezzanine Secured Floating Rate Notes Due 2041  
U.S.\$31,000,000 Class F Eighth Priority Mezzanine Secured Floating Rate Notes Due 2041  
U.S.\$39,000,000 Class G Ninth Priority Mezzanine Secured Floating Rate Notes Due 2041  
94,000 Preferred Securities Par Value U.S.\$0.01 Per Security

*Backed by a Portfolio of Commercial Mortgage Backed Securities, Residential Mortgage-Backed Securities, Asset-Backed Securities, Collateralized Debt Obligations and Related Synthetic Securities*

## Octans I CDO Ltd. Octans I CDO LLC

Octans I CDO Ltd., an exempted company incorporated under the laws of the Cayman Islands (the "Issuer"), and Octans I CDO LLC, a Delaware limited liability company (the "Co-Issuer" and, together with the Issuer, the "Co-Issuers"), will issue U.S.\$975,000,000 Class A-1 First Priority Senior Secured Floating Rate Notes due 2041 (the "Class A-1 Notes"), U.S.\$82,500,000 Class A-2A Second Priority Senior Secured Floating Rate Notes due 2041 (the "Class A-2A Notes"), U.S.\$67,500,000 Class A-2B Third Priority Senior Secured Floating Rate Notes due 2041 (the "Class A-2B Notes" and, together with the Class A-2A Notes, the "Class A-2 Notes" and, together with the Class A-1 Notes, the "Class A Notes"), U.S.\$60,000,000 Class B Fourth Priority Senior Secured Floating Rate Notes due 2041 (the "Class B Notes"), U.S.\$80,000,000 Class C Fifth Priority Senior Secured Floating Rate Notes due 2041 (the "Class C Notes"), U.S.\$15,000,000 Class D Sixth Priority Mezzanine Secured Floating Rate Notes due 2041 (the "Class D Notes"), U.S.\$60,000,000 Class E Seventh Priority Mezzanine Secured Floating Rate Notes due 2041 (the "Class E Notes"), U.S.\$31,000,000 Class F Eighth Priority Mezzanine Secured Floating Rate Notes due 2041 (the "Class F Notes") and U.S.\$39,000,000 Class G Ninth Priority Mezzanine Secured Floating Rate Notes due 2041 (the "Class G Notes"). The Class A-2A Notes, Class A-2B Notes, Class B Notes, Class C Notes, Class D Notes, Class E Notes, Class F Notes and Class G Notes are collectively referred to herein as the "Funded Notes," and together with the Class A-1 Notes, the "Notes." Concurrently with the issuance of the Notes, the Issuer will issue 64,000 Class A Preferred Securities, par value U.S.\$0.01 per security (the "Class A Preferred Securities") and 30,000 Class B Preferred Securities par value U.S.\$0.01 per security (the "Class B Preferred Securities" and together with the Class A Preferred Securities, the "Preferred Securities" and together with the Notes, the "Securities"). The Preferred Securities will be issued and sold by the Issuer in a private sale and are not offered hereby. The Collateral will be managed by Harding Advisory LLC (the "Collateral Manager").

*(continued on next page)*



It is a condition to the issuance of the Notes that the Class A-1 Notes be rated "Aaa" by Moody's Investors Service, Inc. ("Moody's") and "AAA" by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("Standard & Poor's" and, together with Moody's, the "Rating Agencies"), that the Class A-2A Notes be rated "Aaa" by Moody's and "AAA" by Standard & Poor's, that the Class A-2B Notes be rated "Aaa" by Moody's and "AAA" by Standard & Poor's, that the Class B Notes be rated at least "Aa2" by Moody's and at least "AA" by Standard & Poor's, that the Class C Notes be rated at least "Aa3" by Moody's and at least "AA-" by Standard & Poor's, that the Class D Notes be rated at least "A2" by Moody's and at least "A" by Standard & Poor's, that the Class E Notes be rated at least "A3" by Moody's and at least "A-" by Standard & Poor's, that the Class F Notes be rated at least "Baa2" by Moody's and at least "BBB" by Standard & Poor's and that the Class G Notes be rated at least "Baa3" by Moody's and at least "BBB-" by Standard & Poor's. See "Risk Factors—Credit Ratings." A credit rating is not a recommendation to buy, hold or sell securities and is subject to revision at any time. Application will be made to the Irish Stock Exchange for the Notes to be admitted to the official list of the Irish Stock Exchange and to trading on its regulated market. There can be no assurance that any such listing will be obtained or, if obtained, will be maintained for the entire period that the Notes are outstanding. No application will be made to list the Notes or the Preferred Securities on any other exchange. No application will be made to list the Preferred Securities on any stock exchange.

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

THE 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 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 THE PREFERRED SECURITIES, 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 PREFERRED SECURITY 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 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 Notes are offered from time to time in individually negotiated transactions at varying prices to be determined at the time of sale by Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPFS" or the "Initial Purchaser") subject to prior sale, when, as and if issued. The Initial Purchaser reserves the right to withdraw, cancel or modify such offer and to reject orders in whole or in part. Cohen & Company Securities, LLC, may act as a placement agent (the "Placement Agent") with respect to certain of the Notes. It is expected that the Notes will be delivered on or about September 26, 2006 (the "Closing Date"), through the facilities of The Depository Trust Company ("DTC"). The Preferred Securities are being offered by the Issuer in a privately negotiated transaction. Neither the Initial Purchaser, the Placement Agent nor any of their respective affiliates, nor any other person is acting as initial purchaser or distributor with respect to the Preferred Securities.



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

Application will be made to the Irish Stock Exchange for the Notes to be admitted to the official list of the Irish Stock Exchange and to trading on its regulated market. There can be no assurance that any such listing will be obtained. No application will be made to list the Notes on any other exchange or, if obtained, will be maintained for the entire period that the Notes are outstanding. No application will be made to list the Preferred Securities on any stock exchange.

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### **Notice to New Hampshire Residents**

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

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NO PERSON IS AUTHORIZED IN CONNECTION WITH ANY OFFERING MADE HEREBY TO GIVE ANY INFORMATION OR MAKE ANY REPRESENTATION OTHER THAN AS CONTAINED HEREIN AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE ISSUER, THE CO-ISSUER, THE INITIAL PURCHASER, THE PLACEMENT AGENT, THE COLLATERAL MANAGER, THE HEDGE COUNTERPARTIES OR ANY OF THEIR RESPECTIVE AFFILIATES. THIS OFFERING CIRCULAR DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, (A) ANY SECURITIES OTHER THAN THE SECURITIES OR (B) ANY 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 SECURITIES IN CERTAIN JURISDICTIONS MAY BE RESTRICTED BY LAW. PERSONS INTO WHOSE POSSESSION THIS OFFERING CIRCULAR COMES ARE REQUIRED BY THE CO-ISSUERS, THE PLACEMENT AGENT AND THE INITIAL PURCHASER TO INFORM THEMSELVES ABOUT, AND TO OBSERVE, ANY SUCH RESTRICTIONS. IN PARTICULAR, THERE ARE RESTRICTIONS ON THE DISTRIBUTION OF THIS OFFERING CIRCULAR, AND THE OFFER AND SALE OF SECURITIES, IN THE UNITED STATES OF AMERICA, THE UNITED KINGDOM AND THE CAYMAN ISLANDS. SEE "PLAN OF DISTRIBUTION." NEITHER THE DELIVERY OF THIS OFFERING CIRCULAR NOR ANY SALE OF ANY SECURITY OFFERED HEREBY SHALL UNDER ANY CIRCUMSTANCES IMPLY THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE CO-ISSUERS OR THAT THE



INFORMATION HEREIN IS CORRECT AS OF ANY DATE SUBSEQUENT TO THE DATE AS OF WHICH SUCH INFORMATION IS GIVEN HEREIN. THE CO-ISSUERS, THE PLACEMENT AGENT AND THE INITIAL PURCHASER RESERVES THE RIGHT, FOR ANY REASON, TO REJECT ANY OFFER TO PURCHASE IN WHOLE OR IN PART, TO ALLOT TO ANY OFFEREE LESS THAN THE FULL AMOUNT OF SECURITIES SOUGHT BY SUCH OFFEREE OR TO SELL LESS THAN THE AGGREGATE STATED PRINCIPAL AMOUNT OF ANY CLASS OF NOTES OR THE NUMBER OF PREFERRED SECURITIES.

THE NOTES ARE LIMITED RECOURSE OBLIGATIONS OF THE CO-ISSUERS. THE NOTES ARE PAYABLE SOLELY FROM THE COLLATERAL DEBT SECURITIES AND OTHER COLLATERAL PLEDGED BY THE ISSUER TO SECURE THE NOTES. NONE OF THE SECURITY HOLDERS, MEMBERS, OFFICERS, DIRECTORS, MANAGERS OR INCORPORATORS OF THE ISSUER, THE CO-ISSUER, THE TRUSTEE, THE ADMINISTRATOR, THE COLLATERAL MANAGER, ANY RATING AGENCY, THE SHARE TRUSTEE, THE INITIAL PURCHASER, THE PLACEMENT AGENT, ANY HEDGE COUNTERPARTY, THE CREDIT DEFAULT 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 COLLATERAL DEBT SECURITIES 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, EACH RECIPIENT OF THIS OFFERING CIRCULAR (AND EACH EMPLOYEE, REPRESENTATIVE OR OTHER AGENT OF ANY SUCH RECIPIENT) MAY DISCLOSE TO ANY AND ALL PERSONS, WITHOUT LIMITATION OF ANY KIND, THE U.S. TAX TREATMENT AND TAX STRUCTURE OF THIS OFFERING AND ALL MATERIALS OF ANY KIND, INCLUDING OPINIONS OR OTHER TAX ANALYSES, THAT ARE PROVIDED TO THE RECIPIENT RELATING TO SUCH TAX TREATMENT AND TAX STRUCTURE. THIS AUTHORIZATION TO DISCLOSE SUCH TAX TREATMENT AND TAX STRUCTURE DOES NOT PERMIT DISCLOSURE OF INFORMATION IDENTIFYING THE ISSUER, THE CO-ISSUER, THE COLLATERAL MANAGER OR ANY OTHER PARTY TO THE TRANSACTION, THIS OFFERING OR THE PRICING (EXCEPT TO THE EXTENT SUCH INFORMATION IS RELEVANT TO TAX STRUCTURE OR TAX TREATMENT) OF THIS OFFERING.

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THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION. THE SECURITIES ARE TO BE PURCHASED FOR INVESTMENT ONLY AND MAY NOT BE SOLD, PLEDGED OR OTHERWISE TRANSFERRED BY AN INVESTOR DIRECTLY OR INDIRECTLY WITHIN THE UNITED STATES OR TO OR FOR THE ACCOUNT OF U.S. PERSONS (AS DEFINED IN REGULATION S) EXCEPT PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT THE SELLER OF ANY SECURITIES 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 PREFERRED SECURITIES FORM, REGISTRATION AND TRANSFER" AND "TRANSFER RESTRICTIONS." A TRANSFER OF SECURITIES IS SUBJECT TO THE RESTRICTIONS DESCRIBED HEREIN, INCLUDING THAT NO SALE, PLEDGE, TRANSFER OR EXCHANGE MAY BE MADE OF A SECURITY (1) EXCEPT AS PERMITTED UNDER (A) THE SECURITIES ACT PURSUANT TO AN EXEMPTION FROM REGISTRATION AS DESCRIBED HEREIN, (B) APPLICABLE STATE SECURITIES LAWS AND (C) APPLICABLE SECURITIES LAWS OF ANY OTHER JURISDICTION, (2) EXCEPT IN COMPLIANCE WITH THE CERTIFICATION AND OTHER REQUIREMENTS SET FORTH IN THE INDENTURE OR THE PREFERRED SECURITY PAYING AGENCY AGREEMENT AS APPLICABLE AND (3) IN A DENOMINATION LESS THAN THE REQUIRED MINIMUM DENOMINATION (IN THE CASE OF THE NOTES) OR A NUMBER LESS THAN THE REQUIRED MINIMUM NUMBER (IN THE CASE OF THE PREFERRED SECURITIES). THE 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 SECURITIES WHICH WOULD HAVE THE EFFECT OF REQUIRING EITHER OF THE CO-ISSUERS OR THE COLLATERAL TO REGISTER AS AN INVESTMENT COMPANY UNDER THE INVESTMENT COMPANY ACT WILL BE PERMITTED. ANY TRANSFER OF A REGULATION S NOTE OR A RESTRICTED NOTE THAT IS A DEFINITIVE NOTE MAY BE EFFECTED ONLY ON THE NOTE REGISTER MAINTAINED BY THE NOTE REGISTRAR PURSUANT TO THE INDENTURE. ANY TRANSFER OF AN INTEREST IN A RESTRICTED GLOBAL NOTE OR A REGULATION S GLOBAL NOTE WILL BE SHOWN ON, AND TRANSFERS THEREOF WILL BE EFFECTED ONLY THROUGH, RECORDS MAINTAINED BY DTC AND ITS DIRECT AND INDIRECT PARTICIPANTS (INCLUDING, IN THE CASE OF REGULATION S GLOBAL NOTES, EUROCLEAR AND CLEARSTREAM, LUXEMBOURG).

FOR THESE REASONS, AMONG OTHERS, AN INVESTMENT IN THE SECURITIES IS NOT SUITABLE FOR ALL INVESTORS AND IS APPROPRIATE ONLY FOR AN INVESTOR CAPABLE OF (A) ANALYZING AND ASSESSING THE RISKS ASSOCIATED WITH DEFAULTS, LOSSES AND RECOVERIES ON, 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 SECURITIES.

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

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

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This Offering Circular has been prepared by the Co-Issuers solely for use in connection with the offering of the Notes described herein (the "Offering") and for listing purposes. The Co-Issuers have taken all reasonable care to confirm that the information contained in this Offering Circular is true and accurate in all material respects and is not misleading in any material respect and that there are no other facts relating to the Co-Issuers or the Securities, the omission of which makes this Offering Circular as a whole or any such information contained herein, in light of the circumstances under which it was made, misleading in any material respect. The Co-Issuers accept responsibility for the information contained in this document. To the best knowledge and belief of the Co-Issuers the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information. The Co-Issuers disclaim any obligation to update such information and do not intend to do so. Neither the Initial Purchaser nor any of its affiliates makes any representation or warranty as to, has independently verified or assumes any responsibility for, the accuracy or completeness of the information contained herein. Neither the Collateral Manager nor any of its affiliates makes any representation or warranty as to, has independently verified or assumes any responsibility for, the accuracy or completeness of the information contained herein (other than the information set forth herein under "The Collateral Manager," "Risk Factors—Conflicts of Interest Involving the Collateral Manager," "Risk Factors—Dependence on the Collateral Manager and Key Personnel"). None of the Hedge Counterparties or any of their guarantors nor any of their respective affiliates makes any representation or warranty as to, has independently verified or assumes any responsibility for, the accuracy or completeness of the information contained herein. Nothing contained in this Offering Circular is or should be relied upon as a promise or representation as to future results or events. The Trustee has not participated in the preparation of this Offering Circular and assumes no responsibility for its contents.

All of the statements in this Offering Circular with respect to the business of the Co-Issuers, and any financial projections or other forecasts, are based on information furnished by the Co-Issuers. See "Forward Looking Statements." Neither the Initial Purchaser, the Collateral Manager nor any of their respective affiliates assumes any responsibility for the performance of any obligations of either of the Co-Issuers or any other person described in this Offering Circular or for the due execution, validity or enforceability of the Securities, instruments or documents delivered in connection with the Securities (other than in respect of its own obligations), or for the value or validity of any collateral or security interests pledged in connection therewith. None of the Hedge Counterparties or their respective guarantors, if any, assumes any responsibility for the performance of any obligations of any other person described in this Offering Circular or for the due execution, validity or enforceability of the Securities, instruments or documents delivered in connection with the Securities (other than their own obligations under documents entered into by them) or for the value or validity of any collateral or security interests pledged in connection therewith.

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

The Irish paying agent for the Notes will initially be Custom House Administration and Corporate Services Limited located in Dublin, Ireland (in such capacity, the "Irish Paying Agent").

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

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

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

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

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

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

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#### NOTICE TO FLORIDA RESIDENTS

THE SECURITIES ARE OFFERED PURSUANT TO A CLAIM OF EXEMPTION UNDER SECTION 517.061 OF THE FLORIDA SECURITIES ACT (THE "FLORIDA ACT") AND HAVE NOT BEEN REGISTERED UNDER THE FLORIDA ACT IN THE STATE OF FLORIDA. FLORIDA RESIDENTS WHO ARE NOT INSTITUTIONAL INVESTORS DESCRIBED IN SECTION 517.061(7) OF THE

FLORIDA ACT HAVE THE RIGHT TO VOID THEIR PURCHASES OF THE SECURITIES WITHOUT PENALTY WITHIN THREE DAYS AFTER THE FIRST TENDER OF CONSIDERATION.

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NOTICE TO CONNECTICUT RESIDENTS

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

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NOTICE TO GEORGIA RESIDENTS

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

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NOTICE TO RESIDENTS OF AUSTRALIA

NO PROSPECTUS OR OTHER DISCLOSURE DOCUMENT (AS DEFINED IN THE CORPORATIONS ACT 2001 OF AUSTRALIA) IN RELATION TO THE SECURITIES HAS BEEN LODGED WITH THE AUSTRALIAN SECURITIES AND INVESTMENTS COMMISSION ("ASIC"). THE INITIAL PURCHASER AND THE PLACEMENT AGENT HAVE EACH REPRESENTED AND AGREED THAT IT:

- (A) HAS NOT OFFERED OR INVITED APPLICATIONS, AND WILL NOT OFFER OR INVITE APPLICATIONS, FOR THE ISSUE, SALE OR PURCHASE OF THE SECURITIES IN AUSTRALIA (INCLUDING AN OFFER OR INVITATION WHICH IS RECEIVED BY A PERSON IN AUSTRALIA); AND
- (B) HAS NOT DISTRIBUTED OR PUBLISHED, AND WILL NOT DISTRIBUTE OR PUBLISH, ANY DRAFT, PRELIMINARY OR DEFINITIVE OFFERING MEMORANDUM, ADVERTISEMENT OR OTHER OFFERING MATERIAL RELATING TO THE SECURITIES IN AUSTRALIA;

UNLESS (1) THE AGGREGATE CONSIDERATION PAYABLE BY EACH OFFEREE OR INVITEE IS AT LEAST AUD500,000 (OR ITS EQUIVALENT IN OTHER CURRENCIES, BUT DISREGARDING MONIES LENT BY THE OFFEROR OR ITS ASSOCIATES) OR THE OFFER OR INVITATION OTHERWISE DOES NOT REQUIRE DISCLOSURE TO INVESTORS IN ACCORDANCE WITH PART 6D.2 OF THE CORPORATIONS ACT, (2) SUCH ACTION COMPLIES WITH ALL APPLICABLE LAWS, REGULATIONS AND DIRECTIVES, AND (3) DOES NOT REQUIRE ANY DOCUMENT TO BE LODGED WITH ASIC.

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#### NOTICE TO RESIDENTS OF AUSTRIA

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

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#### NOTICE TO RESIDENTS OF BELGIUM

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

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#### NOTICE TO RESIDENTS OF CANADA

THE SECURITIES WILL NOT BE QUALIFIED FOR SALE UNDER THE SECURITIES LAWS OF ANY PROVINCE OR TERRITORY OF CANADA. THE INITIAL PURCHASER AND THE PLACEMENT AGENT HAVE EACH REPRESENTED AND AGREED THAT IT HAS NOT OFFERED, SOLD OR DISTRIBUTED AND WILL NOT OFFER, SELL OR DISTRIBUTE ANY SECURITIES, DIRECTLY OR INDIRECTLY, IN CANADA OR TO OR FOR THE BENEFIT OF ANY RESIDENT OF CANADA, OTHER THAN IN COMPLIANCE WITH APPLICABLE SECURITIES LAWS. THE INITIAL PURCHASER AND THE PLACEMENT AGENT HAVE ALSO EACH REPRESENTED AND AGREED THAT IT HAS NOT AND WILL NOT DISTRIBUTE OR DELIVER THE OFFERING CIRCULAR, OR ANY OTHER OFFERING MATERIAL IN CONNECTION WITH ANY OFFERING OF SECURITIES IN CANADA, OTHER THAN IN COMPLIANCE WITH APPLICABLE SECURITIES LAWS.

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NOTICE TO MEMBERS OF THE PUBLIC IN THE CAYMAN ISLANDS

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

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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 SECURITIES IN THE KINGDOM OF DENMARK, DIRECTLY OR INDIRECTLY, BY WAY OF PUBLIC OFFER, UNLESS SUCH OFFER, SALE OR DELIVERY IS, OR WAS, IN COMPLIANCE WITH THE DANISH ACT NO. 1072 OF DECEMBER, 20, 1995 ON SECURITIES TRADING, CHAPTER 12 ON PROSPECTUSES ON FIRST PUBLIC OFFER OF CERTAIN EXECUTIVE SECURITIES AND ANY EXECUTIVE ORDERS ISSUED IN PURSUANCE THEREOF.

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NOTICE TO RESIDENTS OF EUROPEAN ECONOMIC AREA

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

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

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

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

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

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

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#### NOTICE TO RESIDENTS OF FINLAND

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

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#### NOTICE TO RESIDENTS OF FRANCE

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

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

THE DIRECT OR INDIRECT OFFER, MARKETING, DISTRIBUTION, SALE, RE-SALE OR OTHER TRANSFER OF THE SECURITIES TO THE PUBLIC IN THE REPUBLIC OF FRANCE



MUST COMPLY WITH ARTICLES L.411-1, L.411-2, L.412-1 AND L.621-8 OF THE FRENCH CODE MONÉTAIRE ET FINANCIER.

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

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#### NOTICE TO RESIDENTS OF GERMANY

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

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#### NOTICE TO RESIDENTS OF HONG KONG

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

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NOTICE TO RESIDENTS OF IRELAND

EACH OF THE INITIAL PURCHASER AND THE PLACEMENT AGENT HAVE REPRESENTED AND AGREED THAT IT WILL NOT UNDERWRITE OR PLACE THE SECURITIES IN OR INVOLVING IRELAND OTHERWISE THAN IN CONFORMITY WITH THE PROVISIONS OF THE INTERMEDIARIES ACT 1995 OF IRELAND (AS AMENDED) INCLUDING, WITHOUT LIMITATION, SECTIONS 9 AND 23 (INCLUDING ADVERTISING RESTRICTIONS MADE THEREUNDER) THEREOF AND THE CODES OF CONDUCT MADE UNDER SECTION 37 THEREOF OR, IN THE CASE OF A CREDIT INSTITUTION EXERCISING ITS RIGHTS UNDER THE BANKING CONSOLIDATION DIRECTIVE (2000/12/EC OF 20 MARCH 2000) IN CONFORMITY WITH THE CODES OF CONDUCT OR PRACTICE MADE UNDER SECTION 117(1) OF THE CENTRAL BANK ACT 1989 OF IRELAND (AS AMENDED).

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NOTICE TO RESIDENTS OF JAPAN

THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES AND EXCHANGE LAW OF JAPAN. NEITHER THE SECURITIES NOR ANY INTEREST THEREIN MAY BE OFFERED, SOLD, RESOLD OR OTHERWISE TRANSFERRED, DIRECTLY OR INDIRECTLY, IN JAPAN OR TO OR FOR THE ACCOUNT OF ANY RESIDENT OF JAPAN (WHICH TERM AS USED HEREIN MEANS ANY PERSON RESIDENT IN JAPAN, INCLUDING ANY CORPORATION OR OTHER 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 KOREA

THE INITIAL PURCHASER AND THE PLACEMENT AGENT HAVE REPRESENTED AND AGREED THAT SECURITIES HAVE NOT BEEN AND WILL NOT BE OFFERED, DELIVERED OR SOLD DIRECTLY OR INDIRECTLY IN KOREA OR TO ANY RESIDENT OF KOREA OR TO OTHERS FOR RE-OFFERING OR RESALE DIRECTLY OR INDIRECTLY IN KOREA OR TO ANY RESIDENT OF KOREA EXCEPT AS OTHERWISE PERMITTED UNDER APPLICABLE KOREAN LAWS AND REGULATIONS.

THE INITIAL PURCHASER AND THE PLACEMENT AGENT HAVE UNDERTAKEN TO ENSURE THAT ANY SECURITIES DEALER TO WHICH IT SELLS SECURITIES CONFIRMS THAT IT IS PURCHASING SUCH SECURITIES AS PRINCIPAL AND AGREES THAT IT WILL COMPLY WITH THE RESTRICTIONS DESCRIBED ABOVE.

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NOTICE TO RESIDENTS OF THE NETHERLANDS

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

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NOTICE TO RESIDENTS OF NEW ZEALAND

(A) THE ISSUER DOES NOT INTEND THAT THE SECURITIES SHOULD BE OFFERED FOR SALE OR SUBSCRIPTION TO THE PUBLIC IN NEW ZEALAND IN TERMS OF THE SECURITIES ACT 1978.

(B) THE INITIAL PURCHASER AND THE PLACEMENT AGENT SHALL:

(I) OBSERVE ALL APPLICABLE LAWS AND REGULATIONS IN ANY JURISDICTION IN WHICH IT MAY SUBSCRIBE, OFFER, SELL OR DELIVER THE SECURITIES; AND

(II) NOT SUBSCRIBE, OFFER, SELL OR DELIVER THE SECURITIES OR DISTRIBUTE THE OFFERING CIRCULAR OR ANY OTHER OFFERING MATERIAL RELATING TO THE SECURITIES IN ANY JURISDICTION EXCEPT UNDER CIRCUMSTANCES THAT WILL RESULT IN COMPLIANCE WITH ALL APPLICABLE LAWS AND REGULATIONS.

(C) WITHOUT LIMITING PARAGRAPH (B):

(I) EACH OF THE INITIAL PURCHASER AND THE PLACEMENT AGENT REPRESENTS THAT IT IS A PERSON WHOSE PRINCIPAL BUSINESS IS THE INVESTMENT OF MONEY OR WHO, IN THE COURSE OF AND FOR THE PURPOSE OF ITS BUSINESS, HABITUALLY INVESTS MONEY; AND

(II) THE INITIAL PURCHASER AND THE PLACEMENT AGENT MAY NOT OFFER, SELL OR DELIVER THE SECURITIES OR DISTRIBUTE ANY ADVERTISEMENT OR OFFERING MATERIAL RELATING TO THE SECURITIES, IN BREACH OF ANY PROVISION OF THE SECURITIES ACT 1978.

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NOTICE TO RESIDENTS OF SINGAPORE

THIS OFFERING CIRCULAR WILL, PRIOR TO ANY SALE OF SECURITIES PURSUANT TO THE PROVISIONS OF SECTION 106D OF THE COMPANIES ACT (CAP. 50), BE LODGED, PURSUANT TO SAID SECTION 106D, WITH THE REGISTRAR OF COMPANIES IN SINGAPORE, WHICH TAKES NO RESPONSIBILITY FOR ITS CONTENTS, BUT HAS NOT BEEN AND WILL

NOT BE REGISTERED AS A PROSPECTUS WITH THE REGISTRAR OF COMPANIES IN SINGAPORE. ACCORDINGLY, THE SECURITIES MAY NOT BE OFFERED, AND NEITHER THIS OFFERING CIRCULAR NOR ANY OTHER OFFERING DOCUMENT OR MATERIAL RELATING TO THE SECURITIES MAY BE CIRCULATED OR DISTRIBUTED, DIRECTLY OR INDIRECTLY, TO THE PUBLIC OR ANY MEMBER OF THE PUBLIC IN SINGAPORE OTHER THAN TO INSTITUTIONAL INVESTORS OR OTHER PERSONS OF THE KIND SPECIFIED IN SECTION 106C AND SECTION 106D OF THE COMPANIES ACT OR ANY OTHER APPLICABLE EXEMPTION INVOKED UNDER DIVISION 5A OF PART IV OF THE COMPANIES ACT. THE FIRST SALE OF SECURITIES ACQUIRED UNDER A SECTION 106C OR SECTION 106D EXEMPTION IS SUBJECT TO THE PROVISIONS OF SECTION 106E OF THE COMPANIES ACT.

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#### NOTICE TO RESIDENTS OF SWITZERLAND

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

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#### NOTICE TO RESIDENTS OF THE UNITED KINGDOM

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

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#### AVAILABLE INFORMATION

To permit compliance with Rule 144A under the Securities Act in connection with the sale of the Securities, each of the Co-Issuers (or the Issuer, in the case of the Preferred Securities) will be required to furnish, upon request of a holder of a Security, to such holder and a prospective purchaser designated by such holder the information required to be 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 (a) in the case of the Notes, the Trustee or (b) in the case of the Preferred Securities, the Preferred Security 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, differences in the actual allocation of the Collateral Debt Securities among asset categories from those assumed, the timing of Acquisitions of the Collateral Debt Securities, the timing and frequency of defaults on the Collateral Debt Securities, mismatches between the timing of accrual and receipt of Interest Proceeds and Principal Proceeds from the Collateral Debt Securities (particularly prior to the Ramp-Up Completion Date), available funds caps or other caps on the interest rate payable on the Collateral Debt Securities, timing mismatches on the reset of the interest rates between the Collateral Debt Securities, and the Notes, defaults under Collateral Debt Securities and the effectiveness of any Hedge Agreement, among others. Consequently, the inclusion of projections herein should not be regarded as a representation by the Issuer, the Co-Issuer, the Trustee, the Collateral Administrator, the Preferred Security Paying Agent, the Collateral Manager, the Initial Purchaser, the Placement Agent, the Credit Default Swap Counterparty, any Hedge Counterparty or any of their respective affiliates or any other person or entity of the results that will actually be achieved by the Issuer.

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

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## THE OFFERING

*The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing elsewhere in this Offering Circular (this "Offering Circular"). Exhibit A contains a glossary of certain defined terms. An index of defined terms appears at the back of this Offering Circular.*

### Securities:

U.S.\$975,000,000 maximum aggregate principal amount Class A-1 First Priority Senior Secured Floating Rate Notes due 2041 (the "Class A-1 Notes").

U.S.\$82,500,000 aggregate principal amount Class A-2A Second Priority Senior Secured Floating Rate Notes due 2041 (the "Class A-2A Notes").

U.S.\$67,500,000 aggregate principal amount Class A-2B Third Priority Senior Secured Floating Rate Notes due 2041 (the "Class A-2B Notes" and, together with the Class A-2A Notes, the "Class A-2 Notes" and, together with the Class A-1 Notes, the "Class A Notes").

U.S.\$60,000,000 aggregate principal amount Class B Fourth Priority Senior Secured Floating Rate Notes due 2041 (the "Class B Notes").

U.S.\$80,000,000 aggregate principal amount Class C Fifth Priority Senior Secured Floating Rate Notes due 2041 (the "Class C Notes").

U.S.\$15,000,000 aggregate principal amount Class D Sixth Priority Mezzanine Secured Floating Rate Notes due 2041 (the "Class D Notes").

U.S.\$60,000,000 aggregate principal amount Class E Seventh Priority Mezzanine Secured Floating Rate Notes due 2041 (the "Class E Notes").

U.S.\$31,000,000 aggregate principal amount Class F Eighth Priority Mezzanine Secured Floating Rate Notes due 2041 (the "Class F Notes").

U.S.\$39,000,000 aggregate principal amount Class G Ninth Priority Mezzanine Secured Floating Rate Notes due 2041 (the "Class G Notes" and, collectively with the Class A-2 Notes, Class B Notes, Class C Notes, Class D Notes, Class E Notes and Class F Notes, the "Funded Notes" and together with the Class A-1 Notes, the "Notes").

94,000 Preferred Securities, par value U.S.\$0.01 per security (the "Preferred Securities," and together with the Notes, the "Securities").

The Preferred Securities are not being offered hereby. The Preferred Securities are being offered by the Issuer in a privately negotiated transaction to an investment fund (the "Initial Holder of Preferred Securities"). None of the Initial Purchaser nor the Placement Agent, nor any of their respective affiliates nor any other person is acting as initial purchaser or distributor with respect to the Preferred 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 JPMorgan Chase Bank, National Association, as trustee (in such capacity, together with its successors in such capacity, the "Trustee"). Each of the Hedge Counterparties, the Credit Default Swap Counterparty and certain Synthetic Security Counterparties, the Collateral Manager and each holder of Preferred Securities (each, a "Holder of Preferred Securities") will be an express third party beneficiary of the Indenture. See "Description of the Notes—Status and Security" and "—The Indenture." The Notes will be limited-recourse debt obligations of the Co-Issuers secured solely by a pledge of the Collateral by the Issuer to the Trustee pursuant to the Indenture for the benefit of the holders from time to time of the Notes, each Hedge Counterparty, certain Synthetic Security Counterparties, the Collateral Manager, the Preferred Security Paying Agent (but not in respect of the Preferred Securities), the Collateral Administrator and the Trustee (collectively, the "Secured Parties"). See "Description of the Notes—Status and Security."

All of the Notes and the Preferred Securities will be issued on or about September 26, 2006 (the "Closing Date"). None of the principal amount of the Class A-1 Notes will be advanced on the Closing Date. The Class A-1 Swap Counterparty will make advances to the Issuer, in exchange for Class A-1 Notes, until the Swap Period Termination Date pursuant to the Class A-1 Swap.

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

All of the Holders of a Class of Notes are entitled to receive payments *pari passu* among themselves. All of the Holders of the

Preferred Securities are entitled to receive payments *pari passu* among themselves. Except as otherwise described in the Priority of Payments, the relative order of seniority of payment of each Class of Notes on each Quarterly Distribution Date is generally as follows: *first*, Class A-1 Notes, *second*, Class A-2 Notes (in the order described herein), *third*, Class B Notes, *fourth*, Class C Notes, *fifth*, Class D Notes, *sixth*, Class E Notes, *seventh*, Class F Notes and *eighth*, Class G Notes, with (a) each Class of Notes (other than the Class G Notes) in such list being "Senior" to each other Class of Notes that follows such Class of Notes in such list, (b) each Class of Notes (other than the Class A-1 Notes) in such list being "Subordinate" to each other Class of Notes that precedes such Class of Notes in such list and (c) payment of interest on the Class A-2 Notes to be made *pari passu* to the Class A-2A Notes and Class A-2B Notes and payments of principal to the Class A-2 Notes to be made first to the Class A-2A Notes and then to the Class A-2B Notes.

Distributions to the Preferred Securities will be subordinated to payments on the Notes.

No payment of interest on any Class of Notes will be made until all accrued and unpaid interest (and solely with respect to the Class A-1 Swap Counterparty, the Class A-1 Swap Availability Fee) on the Notes of each Class that is Senior to such Class and that remain outstanding has been paid in full. During a Sequential Pay Period, no payment of principal of any Class of Notes will be made from Principal Proceeds until all principal of, and accrued and unpaid interest (and solely with respect to the Class A-1 Swap Counterparty, the Class A-1 Swap Availability Fee) on the Notes of each Class that is Senior to such Class and that remain outstanding have been paid in full. See "Description of the Notes—Priority of Payments."

#### **Class A-1 Swap:**

On the Closing Date, the Issuer will enter into a swap agreement (the "Class A-1 Swap") with Merrill Lynch International (in such capacity, the "Class A-1 Swap Counterparty") in the form of a confirmation pursuant to the ISDA Master Agreement.

Pursuant to the Class A-1 Swap Agreement, the Class A-1 Swap Counterparty will be obligated, on and subject to the terms and conditions specified therein, to purchase Class A-1 Notes from the Co-Issuers in exchange for the payment to the Issuer of the principal amount of the Class A-1 Notes so issued. The aggregate principal amount of Class A-1 Notes that may be issued will not exceed U.S.\$975,000,000. See "Description of the Notes—Drawdown—Class A-1 Swap Agreement."

If the funds available in the applicable Accounts pursuant to the Account Payment Priority are not sufficient to make a payment, the Class A-1 Swap Counterparty will be required to advance funds under the Class A-1 Swap to the Issuer (in exchange for

Class A-1 Notes) to pay (i) Swap Termination Payments to the Credit Default Swap Counterparty, (ii) Floating Amounts and Physical Settlement Amounts in respect of Unhedged Long Credit Default Swaps to the Credit Default Swap Counterparty and (iii) Net Issuer Hedged Long Fixed Amounts payable by the Issuer in respect of Hedged Long Credit Default Swaps to the Credit Default Swap Counterparty (the uses described in clauses (i), (ii) and (iii) above, each, a "Permitted Use"). In order to obtain an advance from the Class A-1 Swap Counterparty the Issuer is required to satisfy the conditions in the Class A-1 Swap. See "Description of the Notes—Drawdowns—Class A-1 Notes."

Prior to the Swap Period Termination Date, the Class A-1 Class Swap Counterparty (unless it has deposited the Class A-1 Swap Prefunding Amount to a Class A-1 Swap Prefunding Account) will be required to satisfy the Class A-1 Rating Criteria. If the Class A-1 Swap Counterparty fails at any time prior to the Swap Period Termination Date to comply with the Class A-1 Rating Criteria, the Issuer will have the right under the Class A-1 Swap to replace such holder with another entity that meets the Class A-1 Rating Criteria unless the Class A-1 Swap Counterparty deposits the Class A-1 Swap Prefunding Amount into a Class A-1 Swap Prefunding Account. See "Description of the Notes—Drawdown—Class A-1 Swap Agreement."

**The Co-Issuers:**

Octans I CDO Ltd. (the "Issuer") is an exempted company incorporated under Cayman Islands law pursuant to the Issuer Charter. The entire issued share capital of the Issuer consists of (a) 1,000 ordinary shares, par value U.S.\$1.00 per share, each of which will be held in trust for charitable purposes by Walkers SPV Limited in the Cayman Islands (the "Share Trustee") under the terms of a declaration of trust, and (b) 94,000 Preferred Securities, par value U.S.\$0.01 per security.

The Issuer will not have any material assets other than the Collateral Debt Securities and other assets comprising the Collateral.

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

**The Collateral Manager:**

Harding Advisory LLC will perform certain advisory functions and assist the Collateral Administrator with certain administrative functions with respect to the Collateral pursuant to a collateral management agreement to be dated as of the Closing Date (the "Collateral Management Agreement") between the Issuer and Harding Advisory LLC (in such capacity, the "Collateral Manager"). See "The Collateral Manager" and "The Collateral Management Agreement." Under the Collateral Management Agreement, the Collateral Manager will manage the Acquisition and Disposition of the Collateral Debt Securities, including exercising rights and remedies associated with the Collateral Debt Securities, Disposing of the Collateral Debt Securities and certain related functions.

**Proceeds Swap:**

On the Closing Date, the Issuer will enter into a Proceeds Swap with the Initial Hedge Counterparty. The Proceeds Swap will be documented by a swap agreement whereby the Issuer will receive an initial payment on the Closing Date from the Initial Hedge Counterparty equal to U.S.\$6,000,000 ("Up Front Payment") and under which the Issuer will be required to pay a floating amount to the Initial Hedge Counterparty on each Quarterly Distribution Date (ending on the Quarterly Distribution Date in October 2010) equal to the Proceeds Swap Installment. The Up Front Payment in respect of the Proceeds Swap represents an amount to be applied to the expected amount of expenses incurred by the Issuer in connection with the Offering.

**Use of Proceeds:**

The gross proceeds which the Issuer expects to receive from the issuance and sale of the Securities will be approximately U.S.\$529,000,000. In addition, on or after the Closing Date, up to U.S.\$975,000,000 in Class A-1 Fundings may be made under the Class A-1 Swap. The net proceeds which the Issuer expects to receive from the issuance and sale of the Securities, together with the Up Front Payment to be made to the Issuer under the Proceeds Swap, are expected to be approximately U.S.\$522,000,000 on the Closing Date, which reflects the payment from gross proceeds of organizational and structuring fees and expenses of the Co-Issuers (including Closing Costs) and the initial deposits into the Expense Account and the Reserve Account. Such net proceeds will be used by the Issuer to make a deposit of U.S.\$375,000,000 to the CDS Reserve Account on the Closing Date and to Acquire a portfolio of interests in (a) Cash Collateral Debt Securities and (b) Synthetic Securities that, in each case, satisfy the investment criteria described herein. Pending the Acquisition of such portfolio, such net proceeds may be temporarily invested in Eligible Investments. See "Security for the Notes."

**Interest Payments on the Notes:**

The outstanding principal amount of the Class A-1 Notes (the "Outstanding Class A-1 Funded Amount") will bear interest at a floating rate per annum equal to three-month LIBOR *plus* 0.30% (the "Class A-1 Note Interest Rate"). Amounts deposited in a Class A-1 Swap Prefunding Account as a result of the Class A-1 Swap

Counterparty failing to satisfy the Class A-1 Rating Criteria will not accrue interest at the Class A-1 Note Interest Rate until the application thereof to a Permitted Use. If the Class A-1 Swap Counterparty is required to deposit such amounts into a Class A-1 Swap Prefunding Account, the Class A-1 Swap Counterparty will be entitled to receive (i) any income from the investment of such amounts in Eligible Investments and (ii) the Class A-1 Swap Availability Fee on such amounts, until such amounts are applied to pay any Permitted Use (upon the occurrence of which interest will commence accruing on the resulting increase in the Outstanding Class A-1 Funded Amount at the Class A-1 Note Interest Rate).

The Class A-2A Notes will bear interest at a floating rate *per annum* equal to three-month LIBOR *plus* 0.40%. The Class A-2B Notes will bear interest at a floating rate *per annum* equal to three-month LIBOR *plus* 0.48%. The Class B Notes will bear interest at a floating rate *per annum* equal to three-month LIBOR *plus* 0.51%. The Class C Notes will bear interest at a floating rate *per annum* equal to three-month LIBOR *plus* 0.61%. The Class D Notes will bear interest at a floating rate *per annum* equal to three-month LIBOR *plus* 1.45%. The Class E Notes will bear interest at a floating rate *per annum* equal to three-month LIBOR *plus* 1.65%. The Class F Notes will bear interest at a floating rate *per annum* equal to three-month LIBOR *plus* 3.15%. The Class G Notes will bear interest at a floating rate *per annum* equal to three-month LIBOR *plus* 3.85%.

Interest on the Notes will be computed on the basis of a 360-day year and the actual number of days elapsed. LIBOR for the first Interest Period for all Notes will be interpolated LIBOR for the period from the Closing Date to the first Quarterly Distribution Date.

With respect to the Class A-1 Notes, interest will accrue on the amount of each Class A-1 Funding during the period from, and including the date of the Class A-1 Funding to, but excluding, the next succeeding Quarterly Distribution Date and thereafter, the period from and including the Quarterly Distribution Date immediately following the last day of the immediately preceding Interest Period to, but excluding, the next succeeding Quarterly Distribution Date. With respect to each other Class of Notes, interest will accrue on the Aggregate Outstanding Amount of such Class (i) for the period from, and including, the Closing Date to, but excluding, the first Quarterly Distribution Date and (ii) thereafter, for the period from, and including, the Quarterly Distribution Date immediately following the last day of the immediately preceding Interest Period to, but excluding, the next succeeding Quarterly Distribution Date. Such period of accrual of interest on the Notes is referred to herein as an "Interest Period."

Accrued and unpaid interest on the Notes will be payable quarterly

in arrears on each Quarterly Distribution Date (commencing on the January 2007 Quarterly Distribution Date). See "Description of the Notes—Interest." See "Description of the Notes—Priority of Payments."

In the event that on any Quarterly Distribution Date there are not sufficient Interest Proceeds available to pay the accrued interest in full on any of the Class D Notes, the Class E Notes, the Class F Notes or the Class G Notes, it will not result in an Event of Default unless the Class of Notes on which interest was not paid in full is the most Senior Class then Outstanding (and the Swap Period Termination Date has occurred). See "Description of the Notes—Interest".

**Class A-1 Swap Availability Fee:**

A fee (the "Class A-1 Swap Availability Fee") will be payable to the Class A-1 Swap Counterparty and accrue on the Aggregate Undrawn Amount under the Class A-1 Swap for each day from and including the Closing Date to but excluding the Swap Period Termination Date, and will be payable to the Class A-1 Swap Counterparty on each Quarterly Distribution Date quarterly in arrears at a rate *per annum* equal to 0.18% (the "Class A-1 Swap Availability Fee Rate"). See "Description of the Notes—Class A-1 Swap Availability Fee on Class A-1 Notes." The Class A-1 Swap Availability Fee will continue accruing on any amounts in a Class A-1 Swap Prefunding Account until they are applied to fund a Permitted Use. The Class A-1 Swap Availability Fee will rank *pari passu* with the payment of interest on the Class A-1 Notes. The Class A-1 Swap Availability Fee will be computed on the basis of a 360-day year and the actual number of days elapsed. See "Description of the Notes—Class A-1 Swap Availability Fee on Class A-1 Notes."

**Distributions on the Preferred Securities:**

On each Quarterly Distribution Date, to the extent funds are available therefor, Interest Proceeds will be released from the lien of the Indenture for payment to the Preferred Security Paying Agent, but only after the payment of interest on the Notes, Class A-1 Swap Availability Fee and all other amounts in accordance with the Priority of Payments.

Any Interest Proceeds permitted to be released from the lien of the Indenture on any Quarterly Distribution Date in accordance with the Priority of Payments and paid to the Preferred Security Paying Agent will be distributed to Holders of Preferred Securities, 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 Quarterly 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 Preferred Securities.

A portion of any Interest Proceeds that would otherwise be distributed to Holders of Preferred Securities on the related Quarterly Distribution Date will be used instead to repay principal of the Class F Notes and the Class G Notes pursuant to the Class F/G Special Redemption.

If a Rating Confirmation Failure occurs, Interest Proceeds that would otherwise be distributed to the Holders of Preferred Securities will be applied to the payment of principal of the Notes to the extent specified by each relevant Rating Agency to obtain a Rating Confirmation. See "Description of the Notes—Priority of Payments."

**Average Life and Duration:**

The stated maturity of the Notes is the Quarterly Distribution Date in October 2041 (with respect to each Class of Notes, the "Stated Maturity"). Each Class of Notes will mature at the Stated Maturity unless redeemed or repaid prior thereto. The average life of each Class of Notes and the duration of the Preferred Securities is expected to be significantly 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:**

Until the end of the Reinvestment Period, the Collateral Manager may reinvest Principal Proceeds in additional Cash Collateral Debt Securities and Defeased Synthetic Securities and may apply CDS Principal Proceeds to Acquire Credit Default Swaps. See "Description of the Notes—Reinvestment Period," "Security for the Notes—Eligibility Criteria" and "—Dispositions of Collateral Debt Securities."

**Principal Repayment:**

During the Reinvestment Period, Specified Principal Proceeds (including Principal Proceeds that the Collateral Manager, in its sole discretion, elects to apply to the payment of principal of the Notes) will be used to pay principal of the Notes or to reduce the Aggregate Undrawn Amount in accordance with the Priority of Payments, and all other Principal Proceeds may, at the Collateral Manager's discretion, be reinvested in (or held for reinvestment in) additional Collateral Debt Securities. Accordingly, the Issuer does not expect to make any principal payments on the Notes from Principal Proceeds during the Reinvestment Period unless the Collateral Manager does not find sufficient reinvestment opportunities or elects to make such principal payments or unless a Rating Confirmation Failure occurs.

After the Reinvestment Period, all Principal Proceeds will be applied on each Quarterly Distribution Date (after paying other



amounts in accordance with the Principal Proceeds Waterfall), to pay principal of each Class of Notes or to reduce the Aggregate Undrawn Amount by making a deposit to the CDS Reserve Account.

If a Quarterly Distribution Date occurs in a Pro Rata Pay Period, principal of the Notes also may be paid from a CDS Reserve Account Excess Withdrawal Amount. If a Quarterly Distribution Date occurs during a Sequential Pay Period, principal of the Class A-1 Notes also may be paid from a CDS Reserve Account Excess Withdrawal Amount and, if the principal of the Class A-1 Notes has been paid in full and the Aggregate Undrawn Amount has been reduced to zero, principal of the Funded Notes may be paid from a CDS Reserve Account Excess Withdrawal Amount in accordance with the Sequential Payment Priority.

The amount and frequency of principal payments on a Class of Notes will depend upon, among other things, the amount and frequency of payments of principal and interest and Disposition Proceeds received with respect to the Cash Collateral Debt Securities and on the amount and frequency of principal payments on Reference Obligations and Dispositions by the Issuer of Credit Default Swaps.

On any Quarterly Distribution Date which occurs during a Sequential Pay Period, principal of the Notes will be paid from Principal Proceeds (if such Quarterly Distribution Date occurs after the Reinvestment Period) and Specified Principal Proceeds (if such Quarterly Distribution Date occurs during the Reinvestment Period) in direct order of seniority in accordance with the Sequential Payment Priority.

On any Quarterly Distribution Date which occurs during a Pro Rata Pay Period, Principal Proceeds (if such Quarterly Distribution Date occurs after the Reinvestment Period) and Specified Principal Proceeds (if such Quarterly Distribution Date occurs during the Reinvestment Period) available after payment of certain other amounts will be applied in accordance with the Priority of Payments, to pay principal of all Classes of the Notes *pro rata* in accordance with the Pro Rata Payment Priority. See "Description of the Notes—Priority of Payments."

**CDS Principal Proceeds:**

On any Quarterly Distribution Date prior to the end of the Reinvestment Period, the Aggregate Undrawn Amount under the Class A-1 Swap will be reduced permanently in accordance with the CDS Application Priority by (i) the amount of the Specified CDS Principal Proceeds for the related Due Period if the Quarterly Distribution Date occurs in a Sequential Pay Period, or (ii) the Class A-1 Reduction Amount for the related Due Period if the Quarterly Distribution Date occurs during a Pro Rata Pay Period.

On any Quarterly Distribution Date after the end of the

Reinvestment Period, the Aggregate Undrawn Amount under the Class A-1 Swap will be reduced permanently in accordance with the CDS Application Priority by (i) the amount of the CDS Principal Proceeds for the related Due Period if such Quarterly Distribution Date occurs during a Sequential Pay Period, or (ii) the Class A-1 Reduction Amount for the related Due Period if such Quarterly Distribution Date occurs during a Pro Rata Pay Period.

The Aggregate Undrawn Amount also will be reduced by other Permanent Reduction Amounts. See "Description of the Notes—Reduction of the Aggregate Undrawn Amount."

On any Quarterly Distribution Date, the Collateral Manager, on behalf of the Issuer, may direct the Trustee to apply funds in the CDS Reserve Account to pay the Outstanding Class A-1 Funded Amount, which payment will not constitute a Permanent Reduction Amount (and, if the conditions in the Class A-1 Swap are satisfied, will result in an increase in the Aggregate Undrawn Amount). See "Description of the Notes—CDS Application Priority."

**Mandatory Redemption:**

In the event of a Rating Confirmation Failure, as described under "Description of the Notes—Mandatory Redemption," on the first Quarterly Distribution Date following such Rating Confirmation Failure, the Issuer will be required to apply all Uninvested Proceeds (other than those required to complete purchases of Collateral Debt Securities) to redeem Notes in accordance with the Sequential Payment Priority. If such Uninvested Proceeds are insufficient to redeem the Notes to the extent necessary in order to obtain the Rating Confirmation, on such Quarterly Distribution Date and on each Quarterly Distribution Date thereafter, the Issuer will be required to apply Interest Proceeds and, to the extent that Interest Proceeds are insufficient, Principal Proceeds to the repayment of Notes in accordance with the Sequential Payment Priority, to the extent specified by each relevant Rating Agency to obtain a Rating Confirmation. If a Proposed Plan has been adopted by the Collateral Manager and has satisfied the Rating Condition, the Notes shall be redeemed only to the extent specified in the Proposed Plan.

On each Quarterly Distribution Date from and including the Quarterly Distribution Date in January 2007, 15% of any Interest Proceeds that would otherwise be released from the lien of the Indenture and paid in respect of the Preferred Securities to the Preferred Security Paying Agent (or paid as part of the Subordinated Management Fee) will be applied to pay principal of the Class F Notes and the Class G Notes, *pro rata* based on the Aggregate Outstanding Amounts thereof, until the Class F Notes and the Class G Notes have been paid in full (the "Class F/G Special Redemption"). See "Description of the Notes—Priority of Payments—Interest Proceeds."

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

Subject to certain conditions described herein, on the Quarterly Distribution Date occurring in January 2011 or on any Quarterly Distribution Date thereafter, the Issuer may redeem the Notes (such redemption, an "Optional Redemption"), in whole but not in part, at the direction of a Special Majority-in-Interest of Holders of Preferred Securities at the applicable Redemption Price therefor. So long as it is the owner of at least 66<sup>2</sup>/<sub>3</sub>% of the Preferred Securities, the Initial Holder of Preferred Securities will, in all cases, be entitled to determine whether such direction will be issued. See "Description of the Notes—Optional Redemption and Tax Redemption."

In addition, upon the occurrence of a Tax Event, subject to the satisfaction of the Tax Materiality Condition, the Issuer may redeem the Notes (such redemption, a "Tax Redemption") on any Quarterly Distribution Date, in whole but not in part, at the applicable Redemption Price therefor (i) at the written direction of the holders of at least 66<sup>2</sup>/<sub>3</sub>% of the Aggregate Outstanding Amount of any Class of Notes that, as a result of the occurrence of a Tax Event, has not received 100% of the aggregate amount of principal and interest due and payable to such Class on any Quarterly Distribution Date (each such Class, an "Affected Class") or (ii) at the written direction of a Special Majority-in-Interest of Holders of Preferred Securities.

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.

**Auction Call Redemption:**

If the Notes have not been redeemed in full prior to the Quarterly Distribution Date occurring in October 2013 then an auction of the Collateral Debt Securities will be conducted by the Trustee on behalf of the Issuer, and *provided* that certain conditions are satisfied, the Collateral Debt Securities will be sold and the Notes will be redeemed on such Quarterly Distribution Date. If such conditions are not satisfied and the auction is not successfully conducted on such Quarterly Distribution Date, the Trustee (in consultation with the Collateral Manager) will conduct auctions on a quarterly basis until the Notes are redeemed in full. See "Description of the Notes—Auction Call Redemption."

**Redemption of the Preferred Securities:**

Subject to certain conditions described herein, on any Quarterly Distribution Date on or after the Quarterly Distribution Date on which the Notes have been paid in full, the Preferred Securities may be redeemed, in whole but not in part, at the direction of a Majority-in-Interest of Holders of Preferred Securities, at the redemption price therefor. The Preferred Securities will also be redeemed upon a Tax Redemption of the Notes. See "Description of the Preferred Securities—Redemption of the Preferred Securities."

The Preferred Securities will be redeemed by the Issuer on the Quarterly Distribution Date in October 2041 (the "Scheduled Preferred Security Redemption Date"), unless redeemed prior thereto. See "Risk Factors—Average Life and Prepayment Considerations" and "Maturity, Prepayment and Yield Considerations."

**Security for the Notes:**

Pursuant to the Indenture, the Notes (together with the Issuer's obligations to any Hedge Counterparty under the Hedge Agreement, to the Credit Default Swap Counterparty under the Credit Default Swaps, to the Class A-1 Swap Counterparty under the Class A-1 Swap, to MLI under the Total Return Swap, to the Collateral Manager under the Collateral Management Agreement and to the Trustee under the Indenture), will be secured by: (a) the Custodial Account, the Collateral Debt Securities and the Equity Securities (if any), (b) the Accounts (other than the Hedge Counterparty Collateral Account, the Synthetic Security Issuer Account and the Class A-1 Swap Prefunding Account), all funds and other property standing to the credit of each such Account, Eligible Investments purchased with funds standing to the credit of each such Account and all income from the investment of funds therein, and the Issuer's rights in and to each Synthetic Security Issuer Account, (c) for the benefit of first, the Credit Default Swap Counterparty (to the extent necessary to secure the Issuer's obligations under the Credit Default Swaps) and second, the other Secured Parties, the Issuer's rights as beneficiary of the Trustee's security interest in each Class A-1 Swap Prefunding Account, (d) the Issuer's rights in and to each Hedge Counterparty Collateral Account, (e) the rights of the Issuer under the Collateral Management Agreement, the Collateral Administration Agreement, the Administration Agreement, all agreements relating to the Synthetic Securities and each Hedge Agreement, (f) for the benefit of the Credit Default Swap Counterparty only, the rights of the Issuer under the Class A-1 Swap to make Class A-1 Fundings in respect of amounts owing by the Issuer to the Credit Default Swap Counterparty under the Credit Default Swaps, (g) all cash delivered to the Trustee and (h) all proceeds, accessions, profits, income benefits, substitutions and replacements, whether voluntary or involuntary, of and to any of the property of the Issuer described in the preceding clauses, but excluding Excepted Property (collectively, the "Collateral"); *provided* that each Synthetic Security Counterparty Account (and all funds and other property credited thereto) will also be held by the Trustee for the benefit of the related Synthetic Security Counterparty. In the event of a liquidation of the Collateral following an Event of Default, proceeds will be applied in accordance with the respective priorities established by the Liquidation Priority of Payments. The security interest granted under the Indenture in each Synthetic Security Counterparty Account (and all funds and other property credited thereto), for the benefit of the Secured Parties, is subject to, and subordinate to the security interest and rights of, the relevant Synthetic Security Counterparty in and to such Synthetic

#### Security Counterparty Account.

#### **Acquisitions and Dispositions of Collateral:**

The Issuer will invest both in Cash Collateral Debt Securities and in Credit Default Swaps and other Synthetic Securities which reference Asset-Backed Securities. The Cash Collateral Debt Securities which the Issuer will purchase and the Reference Obligations under the Credit Default Swaps are expected to consist primarily of RMBS, but are also expected to include CMBS and CDO Obligations. On the Closing Date, the Issuer will Acquire Collateral Debt Securities having an Aggregate Principal Balance (together with certain other amounts) of not less than U.S.\$1,350,000,000, of which approximately U.S.\$1,290,000,000 is expected to consist of the notional amount of Credit Default Swaps. The Issuer expects that, by no later than December 26, 2006, it will have Acquired Collateral Debt Securities having an Aggregate Principal Balance (together with all Principal Proceeds received, and all CDS Principal Proceeds with a CDS Principal Receipt Date, on or after the Closing Date which have not been reinvested) of at least U.S.\$1,500,000,000, of which not less than U.S.\$1,125,000,000 will consist of the notional amount of Credit Default Swaps. All of the Collateral Debt Securities (or Reference Obligations, in the case of Synthetic Securities) must have been assigned a rating of at least "BB-" or "Ba3" by at least one Rating Agency at the time of Acquisition by the Issuer.

An investor or prospective investor in the Securities may request from the Trustee a list of Collateral Debt Securities which the Issuer has Acquired.

The Collateral Manager may Dispose of Defaulted Securities, Equity Securities, Credit Improved Securities, Deferred Interest PIK Bonds, Written Down Securities and Credit Risk Securities at any time. During the Reinvestment Period, the Collateral Manager also may elect to make Discretionary Dispositions of Collateral Debt Securities. See "Security for the Notes—Dispositions of Collateral Debt Securities."

During the Reinvestment Period, the Collateral Manager may reinvest any Disposition Proceeds as well as any other Principal Proceeds in additional Cash Collateral Debt Securities and Defeased Synthetic Securities, and may apply CDS Principal Proceeds to Acquire additional Credit Default Swaps. The Collateral Manager has discretion to change the percentage of the portfolio consisting of Cash Collateral Debt Securities and Defeased Synthetic Securities and the percentage of the portfolio consisting of Credit Default Swaps, within the limits described herein. No reinvestment in additional Collateral Debt Securities will be made by the Issuer after the last day of the Reinvestment Period except (i) Hedge Rebalancing Purchases and (ii) to complete any purchase which it committed to make on or prior to the last day of the Reinvestment Period. Unless terminated earlier as described under "Description of the Notes—Reinvestment

Period," the Reinvestment Period will end on the Quarterly Distribution Date in October 2010.

**The Credit Defaults Swaps:**

The Issuer may enter into a credit default swap only if it is either a Defeased Synthetic Security or if it is a transaction (a "Credit Default Swap") made pursuant to the ISDA Master Agreement between Merrill Lynch International ("MLI") and the Issuer, dated as of the Closing Date or a CDS Replacement. "See Security for the Notes — The ISDA Master Agreement." The Credit Default Swaps which the Issuer will enter into (or commit to enter into) on the Closing Date will be documented based on the form of the "Credit Derivative Transaction on Mortgage-Backed Security With Pay As You Go or Physical Settlement (Form 1) (Dealer Form)" template confirmations published in January 2006, as amended in April 2006, by ISDA that relates to RMBS and CMBS securities, with the elections set forth under "Security for the Notes—The Credit Default Swaps" and certain important modifications. In addition, the Issuer may also enter into Credit Default Swaps based on the form of the "Credit Derivative Transaction on Asset-Backed Security With Pay As You Go or Physical Settlement (Dealer Form)" template confirmation published in June 2006 by ISDA that relates to CDO Obligations, with the elections set forth under "Security for the Notes—The Credit Default Swaps" and certain important modifications. The Credit Default Swaps made on the Closing Date will be both Form Approved Synthetic Securities and Single Obligation Synthetic Securities. With respect to the Long Credit Default Swaps, the initial Form Approved Synthetic Security confirmations that the Issuer will enter into (or commit to enter into) with the Credit Default Swap Counterparty on the Closing Date are attached as Exhibits C and D hereto.

The Credit Events applicable to each Credit Default Swap are: Failure to Pay Principal, Writedown, Distressed Ratings Downgrade and (solely with respect to a CDO PAUG Credit Default Swap) Failure to Pay Interest. Upon the occurrence of any such Credit Event, the Credit Default Swap Counterparty may elect, at its option, to deliver the Reference Obligation to the Issuer, in which event the Issuer must pay the Physical Settlement Amount to the Credit Default Swap Counterparty. In addition to the Credit Events that trigger physical settlement at the option of the Credit Default Swap Counterparty, the Credit Defaults Swaps require the Issuer to pay Floating Amounts to the Credit Default Swap Counterparty upon the occurrence of a Failure to Pay Principal, Writedown or Interest Shortfall.

A Credit Default Swap pursuant to which the Issuer is acting as a seller of protection with respect to the related Reference Obligation is referred to herein as a "Long Credit Default Swap." A Credit Default Swap pursuant to which the Issuer is acting as a buyer of protection with respect to the related Reference Obligation is referred to herein as a "Short Credit Default Swap." The Collateral Manager may, instead of terminating or assigning a Long Credit Default Swap, cause the Issuer to enter into a Short

Credit Default Swap under which the Issuer buys protection from the Credit Default Swap Counterparty with respect to the Reference Obligation of such Long Credit Default Swap (a "Hedging Short Credit Default Swap"). The only Credit Default Swaps that the Issuer may transact are Hedging Short Credit Default Swaps, Hedged Long Credit Default Swaps and Unhedged Long Credit Default Swaps.

If the Issuer has entered into a Hedging Short Credit Default Swap, the related Long Credit Default Swap or portion of the Notional Amount thereof that is subject to the Hedging Short Credit Default Swap is referred to herein as a "Hedged Long Credit Default Swap." A Long Credit Default Swap or portion of the Reference Obligation Notional Amount thereof that is not subject to a related Hedging Short Credit Default Swap and is not a Hedged Long Credit Default Swap is referred to herein as an "Unhedged Long Credit Default Swap."

In the case of a termination or assignment of a Credit Default Swap, the Issuer may be required to pay or may receive a Swap Termination Payment and, in the case of a Hedging Short Credit Default Swap, the Issuer will pay Fixed Amounts to the Credit Default Swap Counterparty which may be more or less than the Fixed Amounts which it is paying under the Hedged long Credit Default Swap.

See "Security for the Notes—The Credit Defaults Swaps."

The Issuer may only enter into Credit Default Swaps with MLI, unless a CDS Replacement has occurred. See "Security for the Notes—Replacements of the ISDA Master Agreement."

**The Total Return Swap:**

Under the ISDA Master Agreement, the Issuer also will enter into total return swap transactions with MLI (in such capacity, the "Total Return Swap Counterparty") relating to the Synthetic Security Collateral held in the CDS Reserve Account. Under the Total Return Swap, the Issuer will pay all interest and similar distributions on the Synthetic Security Collateral to MLI and MLI will pay three-month LIBOR on the notional amount of the Total Return Swap to the Issuer. If any Synthetic Security Collateral that is subject to the Total Return Swap is sold at a price below the principal amount thereof in order to fund a Permitted Use, MLI shall be required to pay such deficiency to the Issuer. The notional amount of the Total Return Swap may be reduced by MLI, and the Total Return Swap may be terminated by MLI or the Issuer in certain circumstances. See "Security for the Notes — The Total Return Swap."

**Liquidation of Collateral Debt Securities:**

Prior to the Quarterly Distribution Date in October 2041, or in connection with any Optional Redemption, Tax Redemption, Auction Call Redemption or Accelerated Maturity Date, the Collateral Debt Securities, Eligible Investments and other collateral will be liquidated, subject to certain limitations, and in accordance with certain procedures, which are set forth in the Indenture.

**Plan of Distribution:**

The Securities are being offered for sale in an initial distribution by the Issuer, Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPFS" or the "Initial Purchaser") and Cohen & Company Securities, LLC, in its capacity as placement agent (the "Placement Agent") to investors (the "Original Purchasers") (a) in the United States, that (i) are either "Qualified Institutional Buyers" (each, a "Qualified Institutional Buyer"), as defined in Rule 144A ("Rule 144A") under the Securities Act of 1933, as amended (the "Securities Act"), or, in the case of the Preferred Securities, Accredited Investors within the meaning of Rule 501(a) (each, an "Accredited Investor") under the Securities Act acquiring the security in reliance on an exemption from registration under the Securities Act, (ii) are Qualified Purchasers and (iii) are acquiring the Securities for their own accounts for investment purposes and not with a view to the distribution thereof (except in accordance with Rule 144A) and (b) outside the United States, that are not U.S. persons, as such term is defined in Regulation S ("Regulation S") under the Securities Act (each, a "U.S. Person") in offshore transactions in reliance on Regulation S and (c) in each case, in accordance with any applicable securities laws of any state of the United States and any other relevant jurisdiction. Securities offered for sale to a U.S. Person will be offered only to Qualified Purchasers.

The Preferred Securities are not being offered hereby. It is anticipated that, on the Closing Date, the Issuer will privately place the Preferred Securities with the Initial Holder of Preferred Securities in a privately negotiated transaction.

**Ratings:**

It is a condition to the issuance of the Notes that the Class A-1 Notes be rated "Aaa" by Moody's Investors Service, Inc. ("Moody's") and "AAA" by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("Standard & Poor's" and, together with Moody's, the "Rating Agencies"), that the Class A-2A Notes be rated "Aaa" by Moody's and "AAA" by Standard & Poor's, that the Class A-2B Notes be rated "Aaa" by Moody's and "AAA" by Standard & Poor's, that the Class B Notes be rated at least "Aa2" by Moody's and at least "AA" by Standard & Poor's, that the Class C Notes be rated at least "Aa3" by Moody's and at least "AA-" by Standard & Poor's, that the Class D Notes be rated at least "A2" by Moody's and at least "A" by Standard & Poor's, that the Class E Notes be rated at least "A3" by Moody's and at least "A-" by Standard & Poor's, that the Class F Notes be rated at least "Baa2" by Moody's and at least "BBB" by Standard & Poor's and that the Class G Notes be rated at least



"Baa3" by Moody's and at least "BBB-" by Standard & Poor's. A credit rating is not a recommendation to buy, hold or sell securities and is subject to revision at any time. See "Risk Factors Credit Ratings."

**Minimum Denominations:**

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

The minimum number of Preferred Securities to be issued to an investor will initially be 250, or integral multiples of 1 security in excess thereof; *provided* that the Issuer may authorize Preferred Securities to be issued (or transferred) in a minimum number of 100 Preferred Securities. Preferred Securities may not be transferred if it is determined that, after giving effect to such transfer, the transferee (or, if the transferor retains any Preferred Securities, the transferor) would own less than 250 Preferred Securities, *provided* that the Issuer may authorize Preferred Securities to be issued (or transferred) in a minimum number of 250 Preferred Securities.

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

See "Description of the Notes—Form, Denomination, Registration and Transfer," "Description of the Preferred Securities—Form, Registration and Transfer" and "Transfer Restrictions."

**Listing:**

Application will be made to the Irish Stock Exchange for the Notes to be admitted to the official list of the Irish Stock Exchange and to trading on its regulated market. There can be no assurance that such applications will be granted. No application will be made to list the Notes on any other stock exchange. No application will be made to list the Preferred Securities on any stock exchange. If any Class or Classes of Notes are admitted to the official list of the Irish Stock Exchange, the Issuer may at any time terminate the listing of such Class or Classes of Notes. See "Listing and General Information."

**Irish Listing Agent;  
Irish Paying Agent:**

McCann FitzGerald Listing Services Limited is expected to be the Irish Listing Agent, and Custom House Administration and Corporate Services Limited is expected to be the Irish Paying Agent for the Notes (in such capacities, the "Irish Listing Agent" and the "Irish Paying Agent," respectively).

**Governing Law:**

The Notes, the Indenture, the Collateral Management Agreement, the Collateral Administration Agreement, the Credit Default Swaps, the Class A-1 Swap, the Total Return Swap, the Preferred Security Paying Agency Agreement, each Hedge Agreement, if any, 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 Preferred Securities 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."

## RISK FACTORS

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

### **Risk Factors Relating to the Terms of the Securities.**

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

*Limited Liquidity.* There is currently no market for the Securities. Although the Initial Purchaser and the Placement Agent may from time to time make a market in any Class of Notes or the Preferred Securities, the Initial Purchaser and the Placement Agent are under no obligation 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 Securities will develop, or if a secondary market does develop, that it will provide the holders of such Securities with liquidity of investment or that it will continue for the life of the Securities. In addition, the Securities are subject to certain transfer restrictions and can only be transferred to certain transferees as described under "Transfer Restrictions." Consequently, an investor in the Securities must be prepared to hold Notes until the Stated Maturity and the Preferred Securities until the Scheduled Preferred Security Redemption Date.

*Limited Recourse Obligations.* The Notes are limited recourse obligations of the Co-Issuers, payable solely from the Collateral Debt Securities and other Collateral pledged by the Issuer to secure the Notes. None of the security holders, members, officers, directors, managers or incorporators of the Issuer, the Co-Issuer, the Trustee, the Credit Default Swap Counterparty, any Hedge Counterparty or any of their respective guarantors, the Collateral Manager, the Administrator, any Rating Agency, the Share Trustee, the Placement Agent, the Initial Purchaser, any of their respective affiliates and any other person or entity will be obligated to make payments on the Notes. Consequently, the Noteholders must rely solely on amounts received in respect of the Collateral Debt Securities and other Collateral pledged to secure the Notes for the payment of principal thereof and interest thereon.

There can be no assurance that the distributions on the Collateral Debt Securities and other Collateral 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 Preferred Securities will be part of the issued share capital of the Issuer and will not be secured pursuant to the lien of the Indenture.

*Subordination of Each Class of Subordinate Notes.* No payment of interest on any Class of Notes will be made until all accrued and unpaid interest on the Notes of each Class (and, with respect to the Class A-1 Swap Counterparty, the Class A-1 Swap Availability Fee) that is Senior to such Class and that remain outstanding has been paid in full. No payment of principal of any Class of Notes will be made

during a Sequential Pay Period from Principal Proceeds until all principal of, and all accrued and unpaid interest on the Notes of each Class that is Senior to such Class (and, with respect to the Class A-1 Swap Counterparty, the Class A-1 Swap Availability Fee) and that remains outstanding have been paid in full. See "Description of the Notes—Priority of Payments." If an Event of Default occurs, so long as any Notes are outstanding (or until the Swap Period Termination Date has occurred), the Class A-1 Note Parties or, if the Aggregate Undrawn Amount has been permanently reduced to zero and is not subject to reinstatement and there is no Outstanding Class A Funded Amount, the holders of the most Senior Class of Notes then outstanding will be entitled to determine the remedies to be exercised under the Indenture. In the event of any realization on the Collateral, proceeds will be allocated to the Notes and other amounts in accordance with the Liquidation Priority of Payments prior to any distribution to the Holders of Preferred Securities. See "Description of the Notes—The Indenture" and "—Priority of Payments." Remedies pursued by the holders of the Class or Classes of Notes entitled to determine the exercise of such remedies could be adverse to the interest of the holders of the other Classes of Notes. Generally, to the extent that any losses are suffered by any of the holders of any Securities, such losses will be borne, *first*, by the holders of the Class B Preferred Securities and then by the holders of the Class A Preferred Securities, *second*, by holders of the Class G Notes, *third*, by the holders of the Class F Notes, *fourth*, by the holders of the Class E Notes, *fifth*, by the holders of the Class D Notes, *sixth*, by the holders of the Class C Notes, *seventh*, by the holders of the Class B Notes, *eighth*, by the holders of the Class A-2B Notes, *ninth*, by the holders of the Class A-2A Notes and *tenth*, by the holders of the Class A-1 Notes.

*The Notes will Continue to be Paid in Accordance with the Priority of Payments Following an Event of Default until the Accelerated Maturity Date; Liquidation of the Collateral after an Event of Default is Restricted.* On any Quarterly Distribution Date following the occurrence of an Event of Default and the acceleration of the maturity of the Notes (each such Quarterly Distribution Date, unless such Event of Default is no longer continuing or such acceleration of the Notes has been rescinded, a "Post-Acceleration Quarterly Distribution Date"), the Trustee will continue to make payments of interest and principal on the Notes in accordance with the same Priority of Payments as was applicable prior to such acceleration until the Accelerated Maturity Date, and as a result a Subordinate Class of Notes may continue to receive payments of interest (and in limited circumstances payments of principal from Interest Proceeds) prior to the date on which the entire principal amount of the Senior Classes of Notes has been paid in full. The Collateral will not be liquidated unless one of the conditions described under "Description of the Notes—The Indenture—Events of Default" is satisfied. If the Class A Sequential Pay Ratio falls below 100% or if the Class A-1 Swap Availability Fee or interest on the Class A-1 Notes is not paid when due, the Class A-1 Notes Parties (holding at least 66<sup>2</sup>/<sub>3</sub>% of the Aggregate Outstanding Amount of the Class A-1 Notes) may determine to liquidate the Collateral, without the consent of the other Noteholders or Preferred Securityholders even if other Classes of Notes and the Preferred Securityholders will suffer a loss upon such liquidation. If any such condition is satisfied and the Collateral is liquidated, the proceeds of the Collateral will be applied to pay interest and principal on the Notes in accordance with the Liquidation Priority of Payments. However, there can be no assurance that the conditions to liquidation of the Collateral will be satisfied.

*Unpaid Interest Amounts; Effect on Rating of Class D Notes, Class E Notes, Class F Notes and Class G Notes.* So long as any Senior Class of Notes is outstanding (or the Swap Period Termination Date has not occurred), the failure to make payment in respect of interest on the Class D Notes, the Class E Notes, the Class F Notes or the Class G Notes on any Quarterly Distribution Date by reason of the Priority of Payments will not (i) result in an Event of Default under the Indenture nor (ii) be treated as Defaulted Interest. Such unpaid interest plus accrued interest thereon, will be paid as Unpaid Interest Amounts on the earlier of the Quarterly Distribution Date on which funds are available to pay such Unpaid Interest Amounts in accordance with the Priority of Payments and the Stated Maturity. A failure to pay Unpaid Interest cannot become an Event of Default until the Class of Notes on which it has accrued is the Controlling Class and the Swap Period Termination Date has occurred. Unpaid Interest

Amounts will not be added to the Aggregate Outstanding Amount of the Class D Notes, the Class E Notes, the Class F Notes or the Class G Notes. In addition, during a Pro Rata Payment Period, the Principal Proceeds (or Specified Principal Proceeds during the Reinvestment Period) that are available to make payments on the Class D Notes, the Class E Notes, the Class F Notes or the Class G Notes on a Quarterly Distribution Date will be applied first to pay the Interest Distribution Amount and any Unpaid Interest Amount (and any Defaulted Interest and accrued interest thereon) and, as a result, the amount available to pay principal on that Class of Notes and the Notes subordinate to that Class of Notes will be reduced.

The Issuer expects the Rating Agencies to view a failure to pay all or part of the Interest Distribution Amount on the Class D Notes, the Class E Notes, the Class F Notes or the Class G Notes as a failure to pay interest when due on such Class of Notes, notwithstanding that it is not an Event of Default under the Indenture. As a result, upon any such failure to pay the full Interest Distribution Amount on any such Class of Notes, the Rating Agencies are likely to treat any such Class of Notes as defaulted notes and withdraw or reduce the current rating assigned to such Class of Note to a rating corresponding to Notes that are in default.

*Payments in Respect of the Preferred Securities.* The Issuer, pursuant to the Indenture, has pledged substantially all of its assets to secure the Notes and certain other obligations of the Issuer. The proceeds of such assets will only be available to make payments in respect of the Preferred Securities as and when such proceeds are released in accordance with the Priority of Payments. No distribution of Principal Proceeds to the Preferred Securities will be made until the Notes have been paid in full. There can be no assurance that, after payment of principal of and interest on the Notes and Class A-1 Swap Availability Fee to the Class A-1 Swap Counterparty, as applicable, 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 Preferred Securities. Although the Priority of Payments provides that certain distributions will be made on the Class A Preferred Securities prior to payment of the Subordinated Management Fee, there can be no assurance that in an insolvency or other proceeding this priority would be enforced or that any distributions on the Class A Preferred Securities will be permitted under applicable Cayman law at a time when the fees to the Collateral Manager have not been paid. Pursuant to a Class F/G Special Redemption, on each Quarterly Distribution Date a portion of the Interest Proceeds that may otherwise have been available to be released from the lien of the Indenture and paid to the Preferred Security Paying Agent will be applied to pay principal of the Class F Notes and the Class G Notes. See "Description of the Notes—Priority of Payments." If an Event of Default occurs, as long as any Notes are outstanding, the holders of the most Senior Class of Notes, as the case may be, will be entitled to determine the remedies to be exercised under the Indenture, including in certain circumstances, the right to declare an acceleration of the Notes without obtaining the consent of the holders of the Preferred Securities. Subsequent to an acceleration of the maturity of the Notes after an Event of Default, distributions will not be made on the Preferred Securities until the entire principal amount of and interest on the Notes has been paid in full. To the extent that any losses are suffered by any of the holders of any Securities, such losses will be borne in the first instance by the holders of the Preferred Securities.

In the event that, prior to the first Quarterly Distribution Date, the Issuer has not obtained a Rating Confirmation from Standard & Poor's or has not either submitted an accountant's report to Moody's showing the Issuer's compliance with the Collateral Quality Tests (other than the Standard & Poor's Minimum Recovery Rate Test and the Standard & Poor's CDO Monitor Test) or obtained a Rating Confirmation from Moody's, the Issuer will not make any distribution on the Preferred Securities on the first Quarterly Distribution Date.

A significant portion of the initial proceeds of the sale of the Preferred Securities will be applied to pay expenses incurred by the Issuer in arranging the offering of the Notes and the Preferred Securities

and to make any payment to the Hedge Counterparty on the Closing Date, rather than to invest in Collateral Debt Securities. As a result, on the Closing Date the market value of the Collateral will be significantly less than the aggregate principal amount of the Notes and the aggregate Notional Amount of the Preferred Securities. After payments on the Notes and the other expenses of the Issuer payable prior to payments to the Preferred Security Paying Agent for distributions in respect of the Preferred Securities, it is possible that there will be no Principal Proceeds available to pay to the Preferred Security Paying Agent for distribution to the holders of the Preferred Securities, and, even if there are Principal Proceeds available for payment on the Preferred Securities, it is highly unlikely that such proceeds will be sufficient to pay the Notional Amount of the Preferred Securities. Holders of Preferred Securities will therefore rely on distributions of Interest Proceeds for their ultimate return, and bear a high risk of losing all or part of their original investment.

The Preferred Security Paying Agent will not make any distributions on the Class B Preferred Securities on a Quarterly Distribution Date or Redemption Date until the holders of the Class A Preferred Securities have received distributions on such date equal to the minimum amounts described in "Description of the Preferred Securities—Preferred Security Distribution Priority."

Under Cayman Islands law the Preferred Securities will be viewed as preferred shares and distributions thereon as dividends. 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 security premium account (which includes subscription monies in excess of the par value of each security); *provided* that the Issuer will be solvent immediately following the date of such payment. Prior to the payment in full of the Notes and all other amounts owing under the Indenture, Holders of Preferred Securities 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 Holders of Preferred Securities and the duration of the Holders of Preferred Securities' 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.

Amounts released from the Lien of the Indenture will not be available to pay amounts due on the Notes. Any amounts that are released from the lien of the Indenture for distribution to the Holders of Preferred Securities in accordance with the Priority of Payments on any Quarterly Distribution Date will not be available to make payments in respect of the Notes on any subsequent Quarterly Distribution Date.

Pro Rata Payment of Notes. On any Quarterly Distribution Date that occurs during a Pro Rata Pay Period, Principal Proceeds will be applied in accordance with the Priority of Payments to pay principal of each Class of the Notes (other than the Class A-2B Notes) *pro rata* and not sequentially. This will have the effect of Subordinate Classes of Notes being paid principal prior to the payment in whole of more senior Classes of Notes.

During a Pro Rata Pay Period each Class of the Funded Notes may not receive its pro rata share of the Total Due Period Amortization. In any Due Period, the total reduction in the Issuer's investment portfolio from Dispositions and principal amortization will be equal to the Total Due Period Amortization. A portion of the Total Due Period Amortization will consist of CDS Principal Proceeds, which are reductions in the notional amount of the Credit Default Swaps for which the Issuer will not have received a corresponding cash payment. As a result, on any Quarterly Distribution Date, the Issuer may not have sufficient Distributable Principal Proceeds and excess cash in the CDS Reserve Account to make principal payments on the Funded Notes equal to the Junior Note Share of the Total Due Period Amortization. In that event the Junior Note Reduction Amount will be less than the Junior Note Share of the Total Due Period Amortization and the reduction in the Outstanding Class A-1 Funded Amount and in the Aggregate Undrawn Amount on such Quarterly Distribution Date will be increased and will be larger

than the Class A-1 Share of the Total Due Period Amortization. The Issuer will not increase the principal payments on the Funded Notes on any subsequent Quarterly Distribution Date in order to make up this deficiency in the Junior Note Reduction Amount.

The principal payments on the Class D Notes, the Class E Notes, Class F Notes and Class G Notes made on a Quarterly Distribution Date during the Pro Rata Pay Period will be less than each such Class's *pro rata* share of the Junior Note Reduction Amount if Principal Proceeds are applied to pay interest (including the Unpaid Interest Amount) on any such Class of the Notes. During the Pro Rata Pay Period, (i) any interest on the Class D Notes (including the Class D Unpaid Interest Amount) which is not paid from Interest Proceeds will be paid from the Junior Note Reduction Amount before such amount is applied to pay the principal on the Class D Notes equal to the Class D Pro Rata Principal Payment Cap, and the amount so applied to pay interest on the Class D Notes will reduce dollar-for-dollar the portion of the Junior Note Reduction Amount available, *first*, to pay principal of the Class G Notes, *second*, to pay principal of the Class F notes, *third*, to pay principal of the Class E Notes and, *fourth*, to pay principal of the Class D Notes, (ii) any interest on the Class E Notes (including the Class E Unpaid Interest Amount) which is not paid from Interest Proceeds will be paid from the Junior Note Reduction Amount before such amount is applied to pay the principal on the Class E Notes equal to the Class E Pro Rata Principal Payment Cap, and the amount so applied to pay interest on the Class E Notes will reduce dollar-for-dollar the portion of the Junior Note Reduction Amount available, *first*, to pay principal of the Class G Notes, *second*, to pay principal of the Class F notes and, *third*, to pay principal of the Class E Notes, (iii) any interest on the Class F Notes (including the Class F Unpaid Interest Amount) which is not paid from Interest Proceeds will be paid from the Junior Note Reduction Amount before such amount is applied to pay the principal on the Class F Notes equal to the Class F Pro Rata Principal Payment Cap, and the amount so applied to pay interest on the Class F Notes will reduce dollar-for-dollar the portion of the Junior Note Reduction Amount available, *first*, to pay principal of the Class G Note and, *second*, to pay principal of the Class F Notes and (iv) any interest on the Class G Notes (including the Class G Unpaid Interest Amount) which is not paid from Interest Proceeds will be paid from the Junior Note Reduction Amount before such amount is applied to pay the principal on the Class G Notes equal to the Class G Pro Rata Principal Payment Cap, and the amount so applied to pay interest on the Class G Notes will reduce dollar-for-dollar the portion of the Junior Note Reduction Amount available to pay principal of the Class G Notes.

*Yield Considerations.* The yield to each holder of the Preferred Securities will be a function of the purchase price paid by such holder for the Preferred Securities and the timing and amount of dividends and other distributions made in respect of the Preferred Securities during the term of the transaction. Each prospective purchaser of the Preferred Securities should make its own evaluation of the yield that it expects to receive on the Preferred Securities. Prospective investors should be aware that the timing and amount of dividends and other distributions will be affected by, among other things, the performance of the Collateral Debt Securities. Each prospective investor should consider the risk that an Event of Default will result in a lower yield on the Preferred Securities 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 Preferred Securities.

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

Ongoing Obligations—Class A-1 Swap Counterparty. The Class A-1 Swap Counterparty will be obligated, subject to the terms and conditions specified in the Class A-1 Swap Agreement, to make Class A-1 Fundings in an amount up to the Aggregate Undrawn Amount if the conditions to each advance in the Class A-1 Swap are satisfied. As a result, investors in the Notes and the Preferred Securities will be exposed to the credit risk of MLI. See "Description of the Notes—Drawdown—Class A-1 Notes."

The Issuer is exposed to the risk that the Class A-1 Swap Counterparty will fail to make Class A-1 Fundings to the Issuer up to the Aggregate Undrawn Amount. There can be no assurance that the Aggregate Undrawn Amount will be funded or that funds will be deposited in a Class A-1 Swap Prefunding Account by the Class A-1 Swap Counterparty when so required under the Class A-1 Swap. The Issuer may only obtain a Class A-1 Funding or use funds standing to the credit of a Class A-1 Swap Prefunding Account to fund a Permitted Use if funds available in the Accounts pursuant to the Account Payment Priority are not sufficient to make such payment. The Issuer may not obtain a Class A-1 Funding to pay interest on the Notes, to purchase Cash Collateral Debt Securities or to pay principal of the Notes.

Given that all or most of the Synthetic Securities entered into by the Issuer will consist of Credit Default Swaps and the Issuer will rely on Class A-1 Fundings under the Class A-1 Notes in order to satisfy its payment obligations under the Credit Default Swaps, the Issuer will have significant credit exposure to the Class A-1 Swap Counterparty. There can be no assurance that the Class A-1 Swap Counterparty will make such Class A-1 Funding. If the Issuer is unable to obtain a Class A-1 Funding because it did not satisfy a condition under the Class A-1 Swap, the Issuer will not be able to honor its payment obligations under Credit Default Swaps, in which case the Credit Default Swap Counterparty may have the right to terminate all of the Credit Default Swaps and the Issuer may be required to pay a termination payment to the Credit Default Swap Counterparty. Such event could have a material and adverse effect on the Issuer's ability to make payments in respect of the Securities.

The Issuer cannot obtain a Class A-1 Funding to pay a Permitted Use unless the Issuer first liquidates all investments in any Account from which the Permitted Use may be paid and applies the funds to pay the Permitted Use. The Issuer may incur losses as a result of this forced liquidation of investments in the Accounts.

Mandatory Repayment of the Notes. If a Rating Confirmation Failure occurs, Uninvested Proceeds and, after application of such Uninvested Proceeds, Interest Proceeds and, after application of Interest Proceeds, Principal Proceeds, may be used on each Distribution Date thereafter for the payment of principal of the Notes and to make a deposit to the CDS Reserve Account to reduce permanently the Aggregate Undrawn Amount in accordance with the Sequential Payment Priority or in accordance with a Proposed Plan.

So long as a Senior Class of Notes remains outstanding, the foregoing could result in an elimination, deferral or reduction in the payments in respect of interest or the principal repayments made to the holders of a Subordinate Class of Notes and a deferral or reduction in distributions on the Preferred Securities, which could adversely impact the returns of such holders. See "Description of the Notes—Principal," "—Mandatory Redemption" and "—Priority of Payments—Interest Proceeds."

The foregoing could result in a reduction in distributions on the Preferred Securities, which could adversely impact the returns of such holders.

No Coverage Tests. The Indenture will not provide for any interest coverage tests or overcollateralization tests under which Notes would be redeemed, in part, from Interest Proceeds and Principal Proceeds in the event that (x) Interest Proceeds for a Due Period fell below a minimum ratio in



excess of the interest due on the Notes or (y) the Net Outstanding Portfolio Collateral Balance on a Measurement Date divided by the Aggregate Outstanding Amount of the Notes (including the Aggregate Undrawn Amount) or of specified Classes of Notes fell below a minimum ratio.

*Auction Call Redemption.* In addition, if the Notes have not been redeemed in full prior to the Quarterly Distribution Date occurring in October 2013 then an auction of the Collateral Debt Securities will be conducted and, if certain conditions are satisfied, the Collateral Debt Securities will be sold and the Notes will be redeemed (in whole, but not in part) on such Quarterly Distribution Date. No redemption of the Notes may occur unless proceeds of the auction, together with other Available Redemption Funds, are sufficient to pay the Total Senior Redemption Amount. In the event that the Holders of Preferred Securities have not received (taking into account the distributions that will be made on the proposed Redemption Date) the full Preferred Security Redemption Date Amount, no Auction Call Redemption may occur unless a Special Majority-in-Interest agree to permit the Auction Call Redemption to occur. If such conditions are not satisfied and the auction is not successfully conducted on such Quarterly Distribution Date, the Trustee (in consultation with the Collateral Manager) will conduct auctions on a quarterly basis until the Notes are redeemed in full. See "Description of the Notes—Redemption Price" and "—Auction Call Redemption." Each Hedge Agreement will terminate upon any Auction Call Redemption. In addition, in order to effect an Auction Call Redemption the Issuer will be required to terminate each Synthetic Security, which may result in it being required to make termination payments to each Synthetic Security Counterparty (including MLI). Any requirement of the Issuer to make termination payments under a Synthetic Security or Hedge Agreement may prevent the Issuer from satisfying the conditions for an Auction Call Redemption.

*Optional Redemption.* Subject to satisfaction of certain conditions, a Special Majority-in-Interest of Holders of Preferred Securities may require that the Notes be redeemed in whole and not in part as described under "Description of the Notes—Optional Redemption and Tax Redemption"; *provided* that no such optional redemption may occur (a) prior to the Quarterly Distribution Date occurring in January 2011 and (b) unless certain conditions are satisfied. See "Description of the Notes—Optional Redemption and Tax Redemption." Each Hedge Agreement will terminate upon any Optional Redemption. In addition, in order to effect a Tax Redemption the Issuer will be required to terminate each Synthetic Security, which may result in it being required to make termination payments to each Synthetic Security Counterparty (including MLI). Any requirement of the Issuer to make termination payments under a Synthetic Security or Hedge Agreement may prevent the Issuer from satisfying the conditions for an Optional Redemption.

The Initial Holder of Preferred Securities, as the holder of the Preferred Securities, will have the right to direct the Issuer to undertake, or prevent the Issuer from undertaking, an Optional Redemption if the conditions in the Indenture are satisfied. See "Risk Factors—The Voting Rights Afforded to the Holders of Preferred Securities May Be Adverse to Holders of Notes."

*Tax Redemption.* Subject to satisfaction of certain conditions, upon the occurrence of a Tax Event, the Issuer may redeem the Notes (such redemption, a "Tax Redemption") on any Quarterly Distribution Date, in whole but not in part, at the applicable Redemption Price therefor (i) at the written direction of the holders of at least  $66\frac{2}{3}\%$  of the Aggregate Outstanding Amount of any Class of Notes that, as a result of the occurrence of a Tax Event, has not received 100% of the aggregate amount of principal and interest due and payable to such Class on any Quarterly Distribution Date (each such Class, an "Affected Class") or (ii) at the written direction of a Special Majority-in-Interest of Holders of Preferred Securities; *provided* that certain conditions are satisfied. No Tax Redemption may be effected, however, unless the Tax Materiality Condition is satisfied. See "Description of the Notes—Optional Redemption and Tax Redemption." Each Hedge Agreement will terminate upon any Tax Redemption. In addition, in order to effect a Tax Redemption the Issuer will be required to terminate each Synthetic

Security, which may result in it being required to make termination payments to each Synthetic Security Counterparty (including MLI). Any requirement of the Issuer to make termination payments under a Synthetic Security or Hedge Agreement may prevent the Issuer from satisfying the conditions for a Tax Redemption.

If a Tax Event has occurred, the Initial Holder of Preferred Securities, as the holder of the Preferred Securities, will have the right to direct the Issuer to undertake a Tax Redemption if the conditions in the Indenture are satisfied. See "Risk Factors—The Voting Rights Afforded to the Holders of Preferred Securities May Be Adverse to Holders of Notes."

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

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. The expected duration of the Preferred Securities is expected to be shorter than the number of years until the Scheduled Preferred Security Redemption Date. See "Maturity, Prepayment and Yield Considerations."

The average life of each Class of Notes and the Preferred Securities will be affected by the financial condition of the obligors on or issuers of the Collateral Debt Securities and the characteristics of the Collateral Debt Securities, including the existence and frequency of exercise of any prepayment, optional redemption or sinking fund features, the prevailing level of interest rates, the redemption price, the actual default rate and the actual level of recoveries on any Defaulted Securities, the frequency of tender or exchange offers for the Collateral Debt Securities and any sales of Collateral Debt Securities and any dividends or other distributions received in respect of Equity Securities, as well as the risks unique to investments in obligations of foreign issuers described above. During the Reinvestment Period, only Specified Principal Proceeds received by the Issuer will be used to pay principal of the Notes in accordance with the Priority of Payments. Accordingly, the average lives of the Notes and the expected duration of the Preferred Securities will be affected by the amount of Principal Proceeds that the Collateral Manager designates as Specified Principal Proceeds. After the Reinvestment Period, the average lives of Notes and the expected duration of the Preferred Securities will be affected by the receipt of any principal payments on and Disposition Proceeds of the Collateral Debt Securities and the occurrence of any Hedge Rebalancing Purchases. See "Maturity, Prepayment and Yield Considerations" and "Security for the Notes."

Non-Petition Agreement. The Preferred Security Paying Agent will covenant in the Preferred Security Paying Agency Agreement that it will not cause or join in the filing of a petition in bankruptcy against the Issuer before one year and one day have elapsed since the payment in full of the Notes or, if longer, the applicable preference period (*plus* one day) then in effect. If such provision failed to be effective to preclude the filing of a petition under applicable bankruptcy laws, then the filing of such a petition could result in one or more payments on the Notes made during the period prior to such filing being deemed to be preferential transfers subject to avoidance by the bankruptcy trustee or similar official exercising authority with respect to the Issuer's bankruptcy estate.

*The Voting Rights Afforded to the Holders of Preferred Securities May Be Adverse to Holders of Notes.* It is anticipated that, on the Closing Date, the Issuer will privately place all of the Preferred Securities with the Initial Holder of Preferred Securities, in a privately negotiated transaction.

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

The Initial Holder of Preferred Securities may exercise all of the voting rights of the Holders of the Preferred Securities. In particular, for so long as the Initial Holder of Preferred Securities holds at least 66⅔% of the Preferred Securities, it will have the right to direct the Issuer to undertake an Optional Redemption and Tax Redemption if the conditions in the Indenture are met. To the extent that the Initial Holder of Preferred Securities holds more than 33⅓% of the Preferred Securities, it will be able to prevent the Issuer from undertaking an Optional Redemption and (unless an Affected Class of Notes otherwise directs) a Tax Redemption. The Initial Holder of Preferred Securities may transfer or pledge the Preferred Securities at any time.

*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 Quarterly Distribution Date prior to payment of other amounts in accordance with the Priority of Payments are limited (see "Description of the Notes—Priority of Payments"). In the event that such funds are not sufficient to pay the costs and expenses incurred by the Issuer, the ability of the Issuer to operate effectively may be impaired and it may not be able to defend or prosecute legal proceedings brought against it or which it might otherwise bring to protect the interests of the Issuer.

*The Issuer May Distribute on a Quarterly Distribution Date Interest Collections that are Attributable to a Subsequent Due Period.* On a Quarterly Distribution Date on which it would otherwise fail to pay the Interest Distribution Amounts on all of the Notes, the Issuer may pay interest on the Notes by applying funds in the Interest Collection Account that were received by the Issuer after the related Determination Date (and, therefore, should be distributed on the subsequent Quarterly Distribution Date). As a result, the Interest Proceeds available to the Issuer on the subsequent Quarterly Distribution Date to pay interest on the Notes and to make distributions on the Preferred Securities will be reduced.

## **Risk Factors Relating to the Collateral Debt Securities.**

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

Reliable sources of statistical information do not exist with respect to the default rates for many of the types of Collateral Debt Securities eligible to be purchased by the Issuer. In addition, historical

economic performance of a particular type of Collateral Debt Securities is not necessarily indicative of its future performance. Prospective purchasers of the Securities should consider and determine for themselves the likely level of defaults and the level of recoveries on the Collateral Debt Securities and the resulting consequences on their investment in the Securities.

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

Although the Issuer expects that the Collateral Debt Securities purchased by it will, on the Ramp-Up Completion Date, satisfy the Collateral Quality Tests described herein, there is no assurance that such tests will be satisfied on such date. Failure to satisfy such tests on the Ramp-Up Completion Date may result in a Rating Confirmation Failure and, as a result, the repayment or redemption of all or a portion of the Notes (according to the priority specified in the Priority of Payments) and the reduction of the Aggregate Undrawn Amount. See "Description of the Notes—Mandatory Redemption."

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

The Issuer may Acquire Collateral Debt Securities that (or enter into Synthetic Securities the Reference Obligations of which) provide for periodic payments of interest in cash less frequently than quarterly, *provided* that the Aggregate Principal Balance of all such Collateral Debt Securities (together with the Aggregate Principal Balance of any Synthetic Securities related thereto) does not exceed 5% of the Net Outstanding Portfolio Collateral Balance.

Asset-Backed Securities. The Collateral Debt Securities will consist of Asset-Backed Securities (including, without limitation, RMBS, CMBS and CDO Obligations) or Synthetic Securities the Reference Obligations of which are Asset-Backed Securities or a specified pool of financial assets (including credit default swaps). "Asset-Backed Securities" are obligations or securities that entitle the holders thereof to receive payments that depend primarily on the cash flow from a specified pool of

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

Asset-Backed Securities include but are not limited to securities for which the underlying collateral consists of assets such as home equity loans, leases, residential mortgage loans, commercial mortgage loans, auto finance receivables, credit card receivables and other debt obligations. Sponsors of issuers of Asset-Backed Securities are primarily banks and finance companies, captive finance subsidiaries of non-financial corporations or specialized originators such as credit card lenders.

Asset-Backed Securities carry coupons that can be fixed or floating. The spread will vary depending on the credit quality of the underlying collateral, the degree and nature of credit enhancement and the degree of variability in the cash flows emanating from the securitized assets.

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

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

Credit risk is an important issue in Asset-Backed Securities because of the significant credit risks inherent in the underlying collateral and because issuers are primarily private entities. Credit risk arises from losses due to defaults by the borrowers in the underlying collateral or the issuer's or servicer's failure to perform. These two elements can overlap as, for example, in the case of a servicer who does not provide adequate credit-review scrutiny to the serviced portfolio, leading to a higher incidence of defaults. Market risk arises from the cash-flow characteristics of the security, which for many Asset-Backed Securities tend to be predictable. The greatest variability in cash flows comes from credit performance, including the presence of wind-down or acceleration features designed to protect the investor if credit losses in the portfolio rise well above expected levels. Interest-rate risk arises for the issuer from the relationship between the pricing terms on the underlying collateral and the terms of the rate paid to security holders and from the need to mark to market the excess servicing or spread account proceeds carried on the balance sheet. Liquidity risk can arise from increased perceived credit risk, such as that which occurred in 1996 and 1997 with the rise in reported delinquencies and losses on securitized pools of credit cards. Liquidity can also become a significant problem if concerns about credit quality, for

example, lead investors to avoid the securities issued by the relevant special-purpose entity. Some securitization transactions may include a "liquidity facility," which requires the facility provider to advance funds to the relevant special-purpose entity should liquidity problems arise. However, where the originator is also the provider of the liquidity facility, the originator may experience similar market concerns if the assets it originates deteriorate and the ultimate practical value of the liquidity facility to the transaction may be questionable. Operations risk arises through the potential for misrepresentation of asset quality or terms by the originating institution, misrepresentation of the nature and current value of the assets by the servicer and inadequate controls over disbursements and receipts by the servicer.

Further issues may arise based on discretionary behavior of the issuer within the terms of the securitization agreements, such as voluntary buybacks from, or contributions to, the underlying pool of loans when credit losses rise. A bank or other issuer may play more than one role in the securitization process. An issuer can simultaneously serve as two or more of originator of loans, servicer, administrator of the trust, underwriter, provider of liquidity and credit enhancer. Issuers typically receive a fee for each element of the transaction they undertake. Institutions acquiring Asset-Backed Securities should recognize that the multiplicity of roles that may be played by a single firm—within a single securitization or across a number of them—means that credit and operational risk can accumulate into significant concentrations with respect to one or a small number of firms.

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

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

Often Asset-Backed Securities are structured to reallocate the risks entailed in the underlying collateral (particularly credit risk) into security tranches that match the desires of investors. For example, senior subordinated security structures give holders of senior tranches greater credit risk protection (albeit at lower yields) than holders of subordinated tranches. Under this structure, at least two classes of Asset-Backed Securities are issued, with the senior class having a priority claim on the cash flows from the underlying pool of assets. The subordinated class must absorb credit losses on the collateral before losses can be charged to the senior portion. Because the senior class has this priority claim, cash flows from the underlying pool of assets must first satisfy the requirements of the senior class. Only after these requirements have been met will the cash flows be directed to service the subordinated class. Most of the Collateral will consist of Asset-Backed Securities that are subordinate in right of payment and rank junior to other securities that are secured by or represent an ownership interest in the same pool of assets. In addition, many of the Asset-Backed Securities included in the Collateral may have been issued in transactions that have structural features that divert payments of interest and/or principal to more senior classes when the delinquency or loss experience of the pool exceeds certain levels. As a result, such securities have a higher risk of loss as a result of delinquencies or losses on the underlying assets. In certain circumstances, payments of interest may be reduced or eliminated for one or more payment dates. Additionally, as a result of cash flow being diverted to payments of principal on more senior classes, the

average life of such securities may lengthen. Subordinate Asset-Backed Securities generally do not have the right to call a default or vote on remedies following a default unless more senior securities have been paid in full. As a result, a shortfall in payments to subordinate investors in Asset-Backed Securities will generally not result in a default being declared on the transaction and the transaction will not be restructured or unwound. Furthermore, because subordinate Asset-Backed Securities may represent a relatively small percentage of the size of the asset pool being securitized, the impact of a relatively small loss on the overall pool may disproportionately affect the holders of such subordinate security.

The Synthetic Security Collateral also is expected to include Asset-Backed Securities. When the Issuer enters into (or purchases) a Synthetic Security, the Eligibility Criteria will be applicable to the Asset-Backed Security that is the Reference Obligation of the Synthetic Security, rather than to any Asset-Backed Securities purchased as Synthetic Security Collateral.

*Residential Mortgage-Backed Securities.* The Collateral Debt Securities are expected to consist primarily of residential mortgage-backed securities ("RMBS") or Synthetic Securities the Reference Obligations of which are RMBS, including Home Equity Loan Securities, Residential A Mortgage Securities and Residential B/C Mortgage Securities.

Holders of RMBS bear various risks, including credit, market, interest rate, structural and legal risks. RMBS represent ownership or participation interests in pools of residential mortgage loans secured by one- to four-family residential properties. Such mortgage loans may be prepaid at any time. See "—Yield Considerations" above.

Credit risk arises from losses due to defaults by the borrowers in the underlying collateral and the servicer's failure to perform. Residential mortgage loans are obligations of the borrowers thereunder only and are not typically insured or guaranteed by any other person or entity. The rate of defaults and losses on residential mortgage loans will be affected by a number of factors, including general economic conditions, particularly those in the area where the related mortgaged property is located, the borrower's equity in the mortgaged property and the financial circumstances of the borrower. If a residential mortgage loan is in default, foreclosure of such residential mortgage loan may be a lengthy and difficult process, and may involve significant expenses. Furthermore, the market for defaulted residential mortgage loans or foreclosed properties may be very limited.

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

RMBS may also be backed by non-conforming mortgage loans, which are mortgage loans that do not qualify for purchase by government-sponsored agencies such as Fannie Mae and Freddie Mac because of credit characteristics that do not satisfy Fannie Mae and Freddie Mac guidelines, including loans to mortgagors whose creditworthiness and repayment ability do not satisfy Fannie Mae and Freddie Mac underwriting guidelines and loans to mortgagors who may have a record of credit write-offs, outstanding judgments, prior bankruptcies and other negative credit items. Non-conforming mortgage loans are likely to experience rates of delinquency, foreclosure and loss that are higher, and that may be substantially higher, than mortgage loans originated in accordance with Fannie Mae or Freddie Mac underwriting guidelines. The majority of mortgage loans made in the United States qualify for purchase by

government-sponsored agencies. The principal differences between conforming mortgage loans and non-conforming mortgage loans include the applicable loan-to-value ratios, the credit and income histories of the related mortgagors, the documentation required for approval of the related mortgage loans, the types of properties securing the mortgage loans, the loan sizes and the mortgagors' occupancy status with respect to the mortgaged properties. As a result of these and other factors, the interest rates charged on non-conforming mortgage loans are often higher than those charged for conforming mortgage loans. The combination of different underwriting criteria and higher rates of interest may also lead to higher delinquency, foreclosure and losses on non-conforming mortgage loans as compared to conforming mortgage loans.

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

Prepayments on the underlying residential mortgage loans in an issue of RMBS will be influenced by the prepayment provisions of the related mortgage notes and may also be affected by a variety of economic, geographic and other factors, including the difference between the interest rates on the underlying mortgage loans (giving consideration to the cost of refinancing) and prevailing mortgage rates and the availability of refinancing. In general, if prevailing interest rates fall significantly below the interest rates on the related mortgage loans, the rate of prepayment on the underlying mortgage loans would be expected to increase. Conversely, if prevailing interest rates rise to a level significantly above the interest rates on the related mortgages, the rate of prepayment would be expected to decrease. Prepayments could reduce the yield received on the related issue of RMBS. RMBS are particularly susceptible to prepayment risks as they generally do not contain prepayment penalties and a reduction in interest rates will increase the prepayments on the RMBS, resulting in a reduction in yield to maturity for holders of such securities.

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

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



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

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

RMBS have structural characteristics that distinguish them from other Asset-Backed Securities. The rate of interest payable on RMBS typically is set or effectively capped at the weighted average net coupon of the underlying mortgage loans themselves, often referred to as an "available funds cap." As a result of this cap, the return to investors is dependent on the relative timing and rate of delinquencies and prepayments of mortgage loans bearing a higher rate of interest. In general, early prepayments will have a greater impact on the yield to the Issuer on such RMBS. Federal and state law may also affect the return to investors by capping the interest rates payable by certain mortgagors (including hard caps and lifetime caps). Many of the RMBS which the Issuer may Acquire are subject to such available funds caps or other caps on the interest rate payable to holders of such securities. The effect of such caps is to reduce the rate at which interest is paid to the holders of such securities (including the Issuer), which would have an adverse effect on the Issuer's ability to pay interest on the Notes and to make distributions on the Preferred Securities.

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

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

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

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

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

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

- (1) the Federal Truth in Lending Act and Regulation Z promulgated under the Truth in Lending Act, which require particular disclosures to the borrowers regarding the terms of the loans;
- (2) the Equal Credit Opportunity Act and Regulation B promulgated under the Equal Credit Opportunity Act, which prohibit discrimination on the basis of age, race, color, sex, religion, marital status, national origin, receipt of public assistance or the exercise of any right under the Consumer Credit Protection Act, in the extension of credit;
- (3) the Americans with Disabilities Act, which, among other things, prohibits discrimination on the basis of disability in the full and equal enjoyment of the goods, services, facilities, privileges, advantages or accommodations of any place of public accommodation;
- (4) the Fair Credit Reporting Act, which, among other things, regulates the use and reporting of information related to the borrower's credit experience;
- (5) the Home Ownership and Equity Protection Act of 1994, which regulates the origination of high cost loans;
- (6) the Depository Institutions Deregulation and Monetary Control Act of 1980, which, among other things, preempts certain state usury laws; and

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

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

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

In some cases, liability of a lender under a mortgage loan may affect subsequent assignees of such obligations, including the issuer of a Consumer Protected Security. In particular, a lender's failure to comply with the Federal Truth in Lending Act could subject such lender and its assignees to monetary penalties and could result in rescission. Numerous class action lawsuits have been filed in multiple states alleging violations of these statutes and seeking damages, rescission and other remedies. These suits have named the originators and current and former holders, including the issuers of related Consumer Protected Securities. If an issuer of a Consumer Protected Security included in the Collateral were to be named as a defendant in a class action lawsuit, the costs of defending or settling such lawsuit or a judgment could reduce the amount available for distribution on the related Consumer Protected Security. In such event, the Issuer, as holder of such Consumer Protected Security, could suffer a loss.

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

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

Commercial Mortgage-Backed Securities. A portion of the Collateral Debt Securities Acquired by the Issuer may consist of commercial mortgage-backed securities meeting the Eligibility Criteria described herein ("CMBS") or Synthetic Securities the Reference Obligations of which are CMBS.

The collateral underlying CMBS generally consists of mortgage loans secured by income producing property, such as multi-family housing or commercial property. In general, incremental risks of delinquency, foreclosure and loss with respect to an underlying commercial mortgage loan pool may be

greater than those associated with residential mortgage loan pools. In part, this is caused by lack of diversity.

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

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

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

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

*CDO Obligations.* A portion of the Collateral Debt Securities Acquired by the Issuer may consist of CDO Obligations. In addition, a portion of the Reference Obligations under the Synthetic Securities may be CDO Obligations. "CDO Obligations" are Asset-Backed Securities issued by an entity (a "CDO") formed for the purpose of holding or investing and reinvesting primarily in a pool (each such pool, an "Underlying Portfolio") of securities, including collateralized debt obligations, commercial or industrial loans or obligations, corporate debt securities, or trust preferred securities (or any combination of the foregoing, including Synthetic Securities which reference such securities) and/or one or more Synthetic Securities or credit default swaps which reference such securities, loans or obligors thereon, subject to specified investment and management criteria (if managed). CDO Obligations may include any ABS CDO Security, Bespoke CDO Security, CDO of CDO Security, CLO Security, Corporate CDO Security, High Yield CDO Security, Investment Grade CDO Security or Trust Preferred CDO Security. The Specified Types of Asset-Backed Securities that constitute CDO Obligations in which the Issuer may invest, subject to compliance with the Eligibility Criteria and certain other limitations and restrictions described herein, are described under "Securities for the Notes—Asset-Backed Securities."

CDO Obligations generally have underlying risks similar to many of the risks set forth in these Risk Factors for the Notes, such as interest rate mismatches, trading and reinvestment risk and tax

considerations. Each CDO Obligation, however, will involve risks specific to the particular CDO Obligation and its Underlying Portfolio. The value of the CDO Obligations generally will fluctuate with, among other things, the financial condition of the obligors on or issuers of the Underlying Portfolio, general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates.

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

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

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

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

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

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

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

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

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

The Synthetic Security Collateral is expected to consist of CDO Obligations (but may include Other ABS and Eligible Investments). When the Issuer enters into a Synthetic Security, the Eligibility Criteria will be applicable to the Reference Obligation, rather than to any CDO Obligations purchased as Synthetic Security Collateral.

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

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

that the operation of such commercial property for its original purpose becomes unprofitable for any reason. Moreover, REITs must continue to satisfy certain U.S. Federal income tax requirements related to real estate investment trust qualifications. Failure of an underlying issuer in any taxable year to qualify as such will render such underlying issuer subject to tax on its taxable income at regular corporate rates. The additional tax liability of an underlying issuer for the year or years involved would reduce the net earnings of such underlying issuer and would adversely affect its ability to make payments on the REIT Debt Securities of which it is an issuer.

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

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

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

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

*Hybrid Securities.* The Issuer may Acquire Hybrid Securities. Hybrid Securities are Collateral Debt Securities that pass through interest and principal on underlying collateral ("Underlying Hybrid Collateral") generally consisting of residential mortgage loans which initially bear interest at a fixed rate and, after a specified initial period, convert to bearing interest at a floating rate that resets periodically based on a specified index as determined on each applicable reset date. Interest payable on Hybrid Securities may, as with other RMBS, be subject to available funds caps. As a result, interest distributions in respect of the Hybrid Securities will depend on the weighted average of the net mortgage rates on the related group or groups of Underlying Hybrid Collateral. The interest rates on Underlying Hybrid Collateral are fixed for initial specified periods of varying lengths from their dates of origination. After these initial fixed-rate periods, Underlying Hybrid Collateral convert to floating rate loans subject to periodic adjustments to their interest rates (which may not correspond to the reset dates for the applicable floating rate indices). On each reset date, the interest rate on each item of Underlying Hybrid Collateral will adjust to equal the sum of the then-applicable level of the related index and a specified gross margin. Underlying Hybrid Collateral may be subject to periodic caps limiting variation of interest rates from reset date to reset date. In addition, interest rates on Underlying Hybrid Collateral may be subject to initial caps limiting the changes in interest rates on their initial interest adjustment dates and overall maximum and minimum lifetime interest rate caps. Interest payable on Hybrid Securities may, as with other RMBS, be subject to available funds caps. The weighted average net mortgage rate on the Underlying Hybrid Collateral will be affected by variations in initial interest adjustment dates, reset dates, indices and gross margins, as well as fluctuations in the floating rate indices themselves. If, as a result of such interest rate adjustments, the weighted average net mortgage rates on the Underlying Hybrid Collateral are reduced, investors in the Hybrid Securities will experience a lower yield. In addition, if, despite increases in the applicable indices, mortgage interest rates on Underlying Hybrid Collateral are subject to maximum lifetime or periodic caps, the yield on the related Hybrid Securities will be similarly limited. Because, as a result of available funds caps, the pass-through rate on each Hybrid Security will be based on, or limited by, the weighted average of the net mortgage rates on one or more groups of Underlying Hybrid Collateral, disproportionate principal payments on the Underlying Hybrid Collateral having net mortgage interest rates higher or lower than the then-current pass-through rate on such Hybrid Securities will affect the pass-through rate for such Hybrid Securities for future periods and the yield on such Hybrid Securities. The date on which a Hybrid Security will cease to be a Fixed Rate Security and will become a Floating Rate Security (which will affect certain Eligibility Criteria, the Weighted Average Coupon Test and the Weighted Average Spread Test) is uncertain because the Underlying Hybrid Collateral in a pool will reset from a fixed interest rate to a floating interest rate on varying dates, and the Hybrid Security will not bear a specified spread over the London interbank offered rate (but instead the Underlying Hybrid Collateral will pay a variety of floating interest rates). As a result, the Collateral Manager will have considerable discretion in determining the reset date and the Current Spread for each Hybrid Security.

*Cap Corridor Securities.* In some cases, RMBS may accrue interest based on the London interbank offered rate. However, interest payable on a distribution date may be capped based on the weighted average coupon of the underlying mortgage pool. A substantial portion of these mortgage loans may pay interest at a fixed rate. As a result, if the London interbank offered rate increases, this increase will not be reflected in the interest receivable by the holders of the RMBS. Some RMBS are structured with a reserve account to mitigate the negative impact caused by an increase in the London interbank offered rate. In addition, the issuer of RMBS may enter into one or more interest rate caps or yield maintenance agreements to further mitigate this risk. These agreements generally provide for payments of interest at the London interbank offered rate, subject to a minimum strike price and a maximum cap rate. Very often, ratings assigned to RMBS will not apply to any payments payable under such agreements to the issuer thereof. To the extent that the London interbank offered rate is lower than the strike price or exceeds the cap rate, these agreements will not cover any shortfalls resulting from an interest rate mismatch between the underlying mortgage pool and the London interbank offered rate-



based coupon on the securities. Securities earning interest at a wider spread above the London interbank offered rate will begin to experience losses in respect of interest payments on their securities at a lower London interbank offered rate than those securities having a lower spread, and accordingly are more exposed to the risk of increases in the London interbank offered rate. Furthermore, the amount payable under these agreements may be calculated based on a preset principal amortization schedule. These amortization schedules would be calculated based on an assumed prepayment rate for the fixed rate mortgage loans. If, however, the actual prepayment rate is slower than the prepayment rate assumed for purposes of setting the amortization schedule, payments under the agreement will not fully cover the mismatch between interest on the underlying mortgage pool and the London interbank offered rate payments accrued on the securities. In addition, the agreement may be scheduled to terminate on the clean-up call date or on another date occurring prior to the stated maturity of the securities. These transactions will also be subject to the risk of non-performance by the counterparties to these agreements. The RMBS transactions described above are referred to as "Cap Corridor Securities." It is expected that a portion of the Collateral Debt Securities purchased by the Issuer will be Cap Corridor Securities. Although Cap Corridor Securities are Floating Rate Securities, under certain London interbank offered rate and prepayment scenarios, they will not as a practical matter have the characteristics of London interbank offered rate-based assets, and may accordingly have an adverse effect on the Issuer's ability to pay interest on the Notes and distributions on the Preferred Securities.

*Issuer may designate additional Specified Types of Collateral Debt Securities.* The Issuer will be permitted to Acquire Collateral Debt Securities of (or enter into Synthetic Securities the Reference Obligations of which are) certain designated "Specified Types" as described under "Security for the Notes—Eligibility Criteria Specified Types" which will be subject to, among other risks, the risks described herein with respect to Asset-Backed Securities (including RMBS, CMBS, CDO Obligations and ABS REIT Debt Securities). However, the Collateral Manager, in its discretion and on behalf of the Issuer, will also be permitted to designate other "Specified Types" of Asset-Backed Securities, CDO Obligations and Other ABS for inclusion in the Pledged Collateral Debt Securities if the Rating Condition has been satisfied with respect to such obligations. Neither the Collateral Manager nor the Issuer will be required to obtain consent from the holders of the Notes or the Preferred Securities to designate such other "Specified Types" of Collateral Debt Securities (or Reference Obligations of Synthetic Securities) for inclusion in the Pledged Collateral Debt Securities, and such other "Specified Types" of Collateral Debt Securities may be subject to risks in addition to those described herein. The Eligibility Criteria do not impose limitations on the percentage of the Net Outstanding Portfolio Collateral Balance which may consist of Collateral Debt Securities (or Reference Obligations of Synthetic Securities) that are an additional "Specified Type" designated by the Collateral Manager after the Closing Date. Accordingly, if the Collateral Manager chooses to direct the Issuer to invest in Collateral Debt Securities of additional "Specified Types," investors in the Notes and the Preferred Securities will be relying on the discretion of the Collateral Manager in selecting "Specified Types" of Collateral Debt Securities that are appropriate investments for, and consistent with the risk profile of, the Issuer. If such "Specified Types" are not appropriate investments for the Issuer or otherwise entail more risk than was originally contemplated for the Issuer, holders of the Notes or Preferred Securities may suffer a loss.

*Ramp-Up Period Purchases.* The Issuer will use its commercially reasonable efforts to purchase or enter into binding agreements to purchase, on or before December 26, 2006, Collateral Debt Securities having an Aggregate Principal Balance (together with all Principal Proceeds received by the Issuer on or after the Closing Date) of not less than U.S.\$1,500,000,000 of which not less than U.S.\$1,125,000,000 will consist of the notional amount of Credit Default Swaps.

During the Ramp-Up Period, the Collateral Manager, on behalf of the Issuer, may direct the Trustee to apply Principal Proceeds to Acquire Collateral Debt Securities and to apply CDS Principal Proceeds to Acquire Credit Default Swaps, for inclusion in the Collateral. In addition, during the

Ramp-Up Period the Collateral Manager will have discretion, on behalf of the Issuer, to direct the Trustee to Dispose of Collateral Debt Securities in Discretionary Dispositions; *provided* that, after the conclusion of the Ramp-Up Period, the Issuer will be required to request a Rating Confirmation from each Rating Agency as described herein under "Security for the Notes—Ramp-Up Period."

Whether or not the Issuer has succeeded in Acquiring Collateral Debt Securities having an Aggregate Principal Balance (together with certain other amounts) of U.S.\$1,500,000,000 by the Ramp-Up Completion Date, if any of the Collateral Quality Tests are not satisfied or a Proposed Plan has not been approved by the Rating Agencies, a Rating Confirmation Failure may occur. Following a Rating Confirmation Failure, Uninvested Proceeds, Interest Proceeds and Principal Proceeds (to the extent necessary to obtain a Rating Confirmation) may be applied to redeem the Notes, in part, as and in the amount described herein. See "Security for the Notes—Ramp-Up Period."

On the first Quarterly Distribution Date following the occurrence of a Rating Confirmation, all Uninvested Proceeds (which are not required to complete purchases of Collateral Debt Securities) are required to be applied as Interest Proceeds (to the extent of the Interest Excess) or Principal Proceeds. Accordingly, to the extent that Uninvested Proceeds have not been invested in Collateral Debt Securities during the Ramp-Up Period, such Uninvested Proceeds will be distributed on such Quarterly Distribution Date in accordance with the Priority of Payments. If the first Quarterly Distribution Date occurs prior to the occurrence of a Rating Confirmation or a Rating Confirmation Failure, an amount equal to the Interest Excess will be withdrawn from the Uninvested Proceeds Account and transferred to the Payment Account for application as Interest Proceeds on such Quarterly Distribution Date.

*Failure to be Fully Invested During the Ramp-Up Period.* The amount of Collateral Debt Securities purchased (or, in the case of Synthetic Securities including Credit Default Swaps, entered into) by the Issuer on the Closing Date and the amount and timing of the Acquisition of (or, in the case of Synthetic Securities including Credit Default Swaps, entry into) additional Collateral Debt Securities prior to the Ramp-Up Completion Date, and the subsequent reinvestment of Principal Proceeds and CDS Principal Proceeds (both prior to and after the Ramp-Up Completion Date, subject to certain criteria as set forth herein), will affect the return to holders of, and cash flows available to make payments on, the Notes. Reduced liquidity and lower volumes of trading in certain Collateral Debt Securities, in addition to restrictions on investment contained in the Eligibility Criteria could result in periods of time during which the Issuer is unable to be fully invested in Collateral Debt Securities. During any such period, excess cash is expected to be invested in Eligible Investments. Because of the short term nature and credit quality of Eligible Investments, the interest rates payable on Eligible Investments tend to be significantly lower than the rates the Issuer would expect to earn on Collateral Debt Securities. The longer the period before investment or reinvestment in Collateral Debt Securities, the greater the adverse impact may be on aggregate Interest Proceeds collected and distributed by the Issuer, resulting in a lower yield than could have been obtained if the net proceeds associated with the offering of the Notes and all Principal Proceeds were immediately invested and remained invested at all times. If during the Ramp-Up Period the Issuer does not apply CDS Principal Proceeds to enter into additional Credit Default Swaps promptly after the CDS Principal Receipt Date, the Interest Proceeds received by the Issuer will be reduced but the Class A-1 Swap Availability Fee payable by the Issuer to the Class A-1 Swap Counterparty will not be reduced. The associated reinvestment risk on the Collateral Debt Securities will first be borne by holders of the Preferred Securities and then by the holders of the Notes in the reverse order of Seniority.

*Limited Authority to Dispose of Collateral Debt Securities.* After the Reinvestment Period, the Collateral Debt Securities may not be Disposed of, except (i) in connection with an Optional Redemption, Tax Redemption, Auction Call Redemption or Accelerated Maturity Date or upon the winding up of the Issuer after payment in full of the Notes, and (ii) the Issuer may, at the direction of the Collateral

Manager, sell (or, in the case of any Defaulted Synthetic Security, exercise its right to terminate) a Defaulted Security, Written Down Security, Deferred Interest PIK Bond, Credit Risk Security, Credit Improved Security or Equity Security, subject to the limitations specified under "Security for the Notes—Dispositions of Collateral Debt Securities." The Collateral Manager may only make Discretionary Dispositions of Collateral Debt Securities during the Reinvestment Period and only in accordance with the limitations in the Indenture. Accordingly, the Issuer's ability to Dispose of existing Collateral Debt Securities will be limited. After the Reinvestment Period, the Issuer may not reinvest such Disposition Proceeds in additional Collateral Debt Securities (except with respect to a Hedge Rebalancing Purchase), but must retain them in the Principal Collection Account where they will be invested in Eligible Investments until the next Quarterly Distribution Date; investment of such Disposition Proceeds in Eligible Investments is likely to produce a lower yield than the Collateral Debt Securities that were Disposed.

*Reinvestment Risk.* During the Reinvestment Period, the Collateral Manager will have discretion to (a) reinvest Principal Proceeds in additional Collateral Debt Securities or to treat such Principal Proceeds as Specified Principal Proceeds that will be used to pay principal of the Notes and (b) apply CDS Principal Proceeds to Acquire Credit Default Swaps, or to treat such CDS Principal Proceeds as Specified CDS Principal Proceeds that will be used to reduce permanently the Aggregate Undrawn Amount and in accordance with the CDS Application Priority. Such potential reinvestment (or lack thereof) may have an adverse effect on the value of the Collateral Debt Securities and on the ability of the Issuer to make payments on the Notes and Preferred Securities. See "Security for the Notes—Dispositions of Collateral Debt Securities." The impact, including any adverse impact, of the reinvestment (or lack of reinvestment) of the Principal Proceeds during the Reinvestment Period, on the Noteholders and the Holders of Preferred Securities would be magnified with respect to the Preferred Securities by the leveraged nature of the Preferred Securities and, with respect to each Subordinate Class of Notes, by the leveraged nature of such Class of Notes.

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

Prior to the end of the Reinvestment Period, Principal Proceeds will not, unless the Collateral Manager designates such Principal Proceeds as Specified Principal Proceeds or fails to reinvest Principal Proceeds within the applicable time period, be applied to redeem the aggregate outstanding principal amount of the Notes. If the Collateral Manager does not promptly reinvest such Principal Proceeds in substitute Collateral Debt Securities, such amounts will be retained in the Principal Collection Account and invested in Eligible Investments, which are likely to have a low yield. If during the Reinvestment Period the Issuer does not apply CDS Principal Proceeds to enter into additional Credit Default Swaps promptly after the CDS Principal Receipt Date, the Interest Proceeds received by the Issuer will be reduced but the Class A-1 Swap Availability Fee payable by the Issuer to the Class A-1 Swap Counterparty will not be reduced. This would result in a reduction of the amounts available for payment on the Notes and the Preferred Securities.

Early Termination of the Reinvestment Period. Although the Reinvestment Period is expected to terminate on the Quarterly Distribution Date occurring in October 2010, the Reinvestment Period may terminate prior to such date if (i) the Collateral Manager notifies the Trustee of its election to make no further investments in substitute Collateral Debt Securities, (ii) the Notes are redeemed in a Tax Redemption as described under "Description of the Notes—Optional Redemption and Tax Redemption," prior to the October 2010 Quarterly Distribution Date, (iii) an Event of Default resulting in the acceleration of the Notes occurs or (iv) if on any date after Harding Advisory has resigned or been removed as Collateral Manager, the Holders of at least a majority in Aggregate Outstanding Amount of the Controlling Class or a Majority-in-Interest of the Holders of Preferred Securities notify the Trustee and the Collateral Manager that the Reinvestment Period shall be terminated. If the Reinvestment Period terminates prior to the Quarterly Distribution Date occurring in October 2010, such early termination may affect the expected average lives of the Notes and the duration of the Preferred Securities described under "Maturity, Prepayment and Yield Considerations."

On any Quarterly Distribution Date prior to the last day of the Reinvestment Period the Collateral Manager may direct the Issuer to apply all or a portion of the Principal Proceeds that would otherwise have been eligible for reinvestment in substitute Collateral Debt Securities to the payment of principal of the Notes in accordance with the Priority of Payments, as if the Reinvestment Period had ended. The Collateral Manager may take such action with respect to any Quarterly Distribution Date with or without also terminating the Reinvestment Period.

Reinvestment may occur after the Reinvestment Period Ends. After the Reinvestment Period ends, the Collateral Manager will have the discretion to reinvest Unscheduled Fixed Rate Principal Proceeds to Acquire Fixed Rate Securities in Hedge Rebalancing Purchases in compliance with the Eligibility Criteria. Such potential reinvestment (or lack thereof) may have an adverse effect on the value of the Collateral Debt Securities and on the ability of the Issuer to make payments on the Notes and the Preferred Securities. Failure to reinvest Unscheduled Fixed Rate Principal Proceeds in Fixed Rate Securities may result in the Issuer being overhedged under a Hedge Agreement. Amounts owed to a Hedge Counterparty on termination of a Hedge Agreement are payable prior to interest on the Notes and distributions to the Preferred Securities.

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

Illiquidity of Collateral Debt Securities. Most of the Collateral Debt Securities purchased by the Issuer will have no, or only a limited, trading market. The Issuer's investment in illiquid Collateral Debt Securities may restrict its ability to Dispose of investments in a timely fashion and for a fair price as well as its ability to take advantage of market opportunities, although the Issuer is generally prohibited by the Indenture from Disposing of Collateral Debt Securities except under certain limited circumstances described under "Limited Authority to Dispose of Collateral Debt Securities." Illiquid Collateral Debt Securities may trade at a discount from the price of comparable, more liquid investments. In addition, the

Issuer may invest in privately placed Collateral Debt Securities that may or may not be freely transferable under the laws of the applicable jurisdiction or due to contractual restrictions on resale, and even if such privately placed Collateral Debt Securities are transferable, the prices realized from their sale could be less than those originally paid by the Issuer or less than what may be considered the fair value of such securities.

Unspecified Use of Proceeds. On the Closing Date, proceeds from the issuance and sale of the Securities will be used to Acquire Collateral Debt Securities having an aggregate principal amount (together with the principal amount of Collateral Debt Securities which the Issuer has committed to purchase) of not less than U.S.\$1,350,000,000. After the Closing Date the Issuer expects to invest in Collateral Debt Securities (including Credit Default Swaps) that may not have been identified by the Collateral Manager on the Closing Date. Purchasers of the Notes and the Preferred Securities will not have an opportunity to evaluate for themselves the relevant economic, financial and other information regarding the investments to be made by the Collateral Manager (on behalf of the Issuer) and, accordingly, will be dependent upon the judgment and ability of the Collateral Manager in investing and managing the proceeds of the Notes and in identifying investments over time. No assurance can be given that the Collateral Manager (on behalf of the Issuer) will be successful in obtaining suitable investments or that, if such investments are made, the objectives of the Issuer will be achieved.

Rating Confirmation Failure; Mandatory Redemption. If the Issuer is required to request a Rating Confirmation but is unable to obtain a Rating Confirmation from each Rating Agency prior to the first Determination Date that is at least 30 Business Days following receipt by such Rating Agency of such Ramp-Up Notice unless a Proposed Plan (which does not provide for redemption of the Notes) has been approved by the Rating Agencies (a "Rating Confirmation Failure"), on the first Quarterly Distribution Date thereafter, the Issuer will be required to apply Uninvested Proceeds (which are not required to complete purchases of Collateral Debt Securities) and, to the extent that such Uninvested Proceeds are insufficient to redeem the Notes to the extent necessary to obtain a Rating Confirmation, on such Quarterly Distribution Date and on each Quarterly Distribution Date thereafter, Interest Proceeds and, to the extent that Interest Proceeds are insufficient, Principal Proceeds, in each case in accordance with the Priority of Payments, to the repayment, of principal of the Notes and reduction of the Aggregate Undrawn Amount in accordance with the Sequential Payment Priority, to the extent specified by each relevant Rating Agency to obtain a Rating Confirmation or to the extent specified in a Proposed Plan which satisfies the Rating Condition with respect to any Rating Agencies which did not previously issue a Rating Confirmation. See "Description of the Notes—Mandatory Redemption" and "—Priority of Payments." CDS Principal Proceeds will also be applied to reduce the Aggregate Undrawn Amount if required to obtain a Rating Confirmation in accordance with the CDS Application Priority. There can be no assurance that such redemption will result in a Rating Confirmation. Any such redemption of the Notes may result in the deferral of interest on the Class D Notes, the Class E Notes, the Class F Notes and the Class G Notes and the reduction or elimination of distributions on the Preferred Securities. The notional amount of any Hedge Agreement entered into by the Issuer may be reduced by the Hedge Counterparty in connection with a redemption of Notes on any such Quarterly Distribution Date by reason of any Rating Confirmation Failure, which is likely to require the Issuer to make a termination payment to the Hedge Counterparty.

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

make timely changes in credit ratings in response to subsequent events, and the credit quality of a debt security may be worse than a rating indicates.

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

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

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

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

*Insolvency Considerations with Respect to Issuers of Collateral Debt Securities.* Various laws enacted for the protection of creditors may apply to obligors under Collateral Debt Securities. The information in this and the following paragraph is applicable with respect to U.S. obligors. If a court in a lawsuit brought by an unpaid creditor or representative of creditors of an obligor under a Collateral Debt Security (such as a trustee in bankruptcy) were to find that the obligor did not receive fair consideration or reasonably equivalent value for incurring the indebtedness constituting the Collateral Debt Security and,

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

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

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

Liquidation of Collateral Upon Redemption of the Securities. An Optional Redemption, a Tax Redemption, an Auction Call Redemption or the occurrence of an Accelerated Maturity Date may require the Collateral Manager to liquidate positions more rapidly than would otherwise be desirable, which could adversely affect the realized value of the Collateral Debt Securities sold and lower the returns on the Preferred Securities. Moreover, the Collateral Manager may be required, in order to Dispose of all the Collateral Debt Securities, to aggregate Collateral Debt Securities in a block transaction, thereby possibly resulting in a lower realized value for the Collateral Debt Securities sold. There can be no assurance that the market value of the Collateral will be sufficient to pay the Redemption Price of the Notes and the Preferred Security Redemption Date Amount. If the Collateral is liquidated, the holders of the Preferred Securities may receive no distribution and, on an Accelerated Maturity Date, holders of the Notes may suffer a loss.

## **Risk Factors Relating to Synthetic Securities.**

On the Closing Date, the aggregate notional amount of Credit Default Swaps which the Issuer has entered into with the Credit Default Swap Counterparty will be approximately U.S. \$1,290,000,000. After the Closing Date, the Issuer may Acquire additional Synthetic Securities, including additional Credit Default Swaps; *provided* that any such Acquisition must meet the Eligibility Criteria set forth in the Indenture including that such Acquisition will not cause the aggregate Principal Balance of the Credit Default Swaps to be less than 75% or greater than 95% of the Net Outstanding Portfolio Collateral Balance and the Acquisition of such Synthetic Security will not cause or increase any Notional Amount Shortfall greater than zero. Synthetic Securities may consist of credit default swaps, total return swaps or a combination of the foregoing. In addition, the Issuer will be exposed to the risk of credit default swap and other credit derivative transactions through the Issuer's purchase of CDO Obligations, which may include Bespoke CDO Securities and other securities all or a substantial portion of the assets of which are credit default swaps and total return swaps.

Investments in such types of assets through the purchase of (or entry into) Synthetic Securities present risks in addition to those resulting from direct purchases of such Collateral Debt Securities. Each Synthetic Security will expose the Issuer to all of the risks of the Reference Obligation, as well as the credit risk of the Synthetic Security Counterparty and risks arising from the terms of the Synthetic Securities. Under each Synthetic Security, the Issuer will have a contractual relationship only with the Synthetic Security Counterparty, and not the Reference Obligor(s) on the Reference Obligation(s). Consequently, the Issuer is relying not only on the creditworthiness of the Reference Obligors and the Reference Obligations, but also on the ability of the Synthetic Security Counterparty to perform its obligations under the Synthetic Securities. The Issuer generally will have no right directly to enforce compliance by the Reference Obligor(s) with the terms of either the Reference Obligation(s) or any rights of set off against the Reference Obligor(s) or the Reference Obligation(s), nor will the Issuer generally have any voting or other consensual rights of ownership with respect to the Reference Obligation(s). The Issuer will not directly benefit from any collateral supporting the Reference Obligation(s) and will not have the benefit of the remedies that would normally be available to a holder of such Reference Obligation(s). The ability of the Issuer to meet its obligations under the Notes and to make distributions on the Preferred Securities will be dependent on its receipt of payments from the Synthetic Security Counterparty under the Synthetic Securities. In addition, in the event of the insolvency of the Synthetic Security Counterparty, the Issuer will be treated as a general creditor of the Synthetic Security Counterparty and will not have any claim with respect to the Reference Obligations. As a result, concentrations of Synthetic Securities entered into with any one Synthetic Security Counterparty will subject the Notes to an additional degree of risk with respect to defaults by such Synthetic Security Counterparty as well as by the Reference Obligor(s).

Merrill Lynch International ("MLI"), an affiliate of the Initial Purchaser, will act as the counterparty with respect to all of the Credit Default Swaps, which are expected to be all of the Synthetic Securities which the Issuer will enter into (or commit to enter into) on the Closing Date. This relationship will create certain conflicts of interest for MLI and expose investors to the credit risk of MLI. Each of the Synthetic Securities into which the Issuer is expected to enter (or commit to enter) on the Closing Date will be Credit Default Swaps under which the Issuer assumes the risk of a Reference Obligation. Unless a CDS Replacement has occurred, the Issuer may not enter into Synthetic Securities with other Synthetic Security Counterparties unless they are Defeased Synthetic Securities.

The obligation of the Issuer to make payments to the Credit Default Swap Counterparty in respect of Credit Default Swaps and to other Synthetic Security Counterparties under other Synthetic Securities creates exposure to the credit default risk of the related Reference Obligations and the default risk of the Credit Default Swap Counterparty and other Synthetic Security Counterparties. See "—Reliance on



Creditworthiness of the Credit Default Swap Counterparty and other Synthetic Security Counterparties" below. Any net amount due and owing to the Credit Default Swap Counterparty or other Synthetic Security Counterparties will reduce the amount available to pay the obligations of the Issuer to the Holders of Preferred Securities and the Noteholders as a result of payments by the Issuer under the Synthetic Securities in inverse order of seniority. Accordingly, the holders of the Preferred Securities in the first instance and thereafter the holders of the Notes in reverse order of priority may lose all or a portion of their investment as a result of payments by the Issuer under the Synthetic Securities.

Following the occurrence of a "credit event" with respect to a Reference Obligation under a Long Credit Default Swap or a Synthetic Security structured as a credit default swap (and subject to the satisfaction of applicable conditions to settlement), the Issuer will be required to pay to the Credit Default Swap Counterparty or other Synthetic Security Counterparty an amount equal to the relevant Physical Settlement Amount or otherwise satisfy its settlement obligations in respect thereof. All or some of the Reference Obligations may fall below investment grade (or the equivalent credit quality) in which case it will be more likely that the seller of protection will be required to make payment of a Physical Settlement Amount. The payment of any amounts (including any Physical Settlement Amount) payable by the Issuer under a Defeased Synthetic Security will be funded out of amounts standing to the credit of the related Synthetic Security Counterparty Account without regard to the Priority of Payments. Payments to the Credit Default Swap Counterparty in respect of any Credit Default Swaps (including Swap Termination Payments payable upon the termination, novation or assignment of an individual Credit Default Swaps) will be funded by the Issuer first from the Accounts in accordance with the Account Payment Priority. As a result, the Issuer may have insufficient funds available to make payments of interest and/or principal, as the case may be, on the Notes when due and payable. Termination payments payable by the Issuer to the Credit Default Swap Counterparty or other Synthetic Security Counterparty in respect of any Credit Default Swaps or other Synthetic Securities will take into account the market value of such terminated Synthetic Security, which may expose the Issuer to deterioration in the credit or value of the Reference Obligations and result in losses to the Issuer, even where no "credit event" has occurred. Any such payments of Physical Settlement Amounts and termination payments by the Issuer will reduce the amount that is available to make payments on the Notes and the Preferred Securities and consequently the Notes and the Preferred Securities could be adversely affected thereby.

In addition, each Long Credit Default Swaps will require (and other Synthetic Securities structured as a credit default swap may require) the Issuer, in its capacity as protection seller, to pay floating amounts to the Credit Default Swap Counterparty (or Synthetic Security Counterparty) upon the occurrence of a Failure to Pay Principal, Writedown or Interest Shortfall under the Reference Obligation (any such payment, a "Floating Amount"). Even if the Credit Default Swap Counterparty (or other Synthetic Security Counterparty) subsequently reimburses all or part of such Floating Amounts to the Issuer if the related shortfalls are paid to holders of the Reference Obligations or if the principal amount of the related Reference Obligations are written up, the ability of the Issuer to make payments in respect of the Notes and the Preferred Securities may be adversely affected during the period from and including the date of payment by the Issuer of the relevant Floating Amounts to the Credit Default Swap Counterparty (or other Synthetic Security Counterparty) to the date on which the Issuer receives such reimbursement from the Credit Default Swap Counterparty (or other Synthetic Security Counterparty). The obligation of the Credit Default Swap Counterparty to reimburse the Issuer for such Floating Amounts will continue only for a limited period of time.

Under the ISDA Master Agreement, a Writedown or Failure to Pay Principal or (solely with respect to a Credit Event under a CDO PAUG Credit Default Swap) Failure to Pay Interest in respect of a Reference Obligation will entitle the Credit Default Swap Counterparty, as protection buyer, to elect whether to require the Issuer to pay a Physical Settlement Amount or a Floating Amount under the related

Synthetic Security. Similar provisions may apply under other Synthetic Securities entered into by the Issuer.

*Payments to Credit Default Swap Counterparty Outside of the Priority of Payments.* Payments of Floating Amounts, Physical Settlement Amounts, Net Issuer Hedged Long Fixed Amounts and Swap Termination Payments owed by the Issuer will be paid by the Issuer directly to the Credit Default Swap Counterparty in accordance with the Account Payment Priority or from Class A-1 Fundings under the Class A-1 Swap and will not be subject to the Priority of Payments.

*Risk of Interest Shortfall.* The Credit Default Swaps are expected to provide that if the Reference Obligor fails to pay the full amount of interest at the interest rate in effect on a Reference Obligation on any scheduled interest payment date (for any reason, including an insufficiency of funds or the effect of an available funds cap), the premium payments by the Synthetic Security Counterparty to the Issuer will be reduced by the amount of such unpaid interest. Each Credit Default Swap will provide that an Interest Shortfall in respect of the related Reference Obligation will reduce dollar-for-dollar the premium payable by the Synthetic Security Counterparty to the Issuer. An Interest Shortfall is a failure by the Reference Entity to pay the expected interest (calculated as specified in the Credit Default Swap) on the related Reference Obligation, irrespective of whether such shortfall would result in a default under the applicable Underlying Instruments. Such expected interest will not be reduced by any provisions providing for the limitation on interest otherwise payable by an "available funds cap," the operation of the priority of payments, the capitalization or deferral of interest or the extinguishing or reduction of such payments or distributions (unless such reduction results from a writedown of principal under the applicable Underlying Instruments).

Each Credit Default Swap that is an MBS PAUG Credit Default Swap (where the Reference Obligation is either an RMBS or a CMBS security) will provide for an election as to whether the "WAC Cap Interest Provision" is applicable. In the event that it is applicable, expected interest will be reduced after giving effect to any "WAC Cap." This means that expected interest under the Synthetic Security would be reduced by any limitation in the applicable Underlying Instruments by a weighted average coupon or weighted average rate cap provision that limits or decreases the interest rate or amount payable pursuant to the applicable Reference Obligation. The Credit Default Swaps may provide that WAC Cap is not applicable.

Many RMBS securities are structured with an available funds cap provision. As a result, Credit Default Swaps having Reference Obligations that are RMBS securities are more likely to experience Interest Shortfalls. Under the Credit Default Swaps, the Issuer will bear the risk of Interest Shortfalls resulting from any available funds cap or other similar cap.

In addition, each Credit Default Swap that is an MBS PAUG Credit Default Swap (where the Reference Obligation is either an RMBS or a CMBS security) is expected to provide that certain consequences will result from the occurrence of a step-up in the coupon payable on a Reference Obligation as a result of a failure of the Reference Entity or a third party to exercise, in accordance with the applicable Underlying Instruments, a "clean-up call" or other right to purchase, redeem, cancel or terminate (however described in the Underlying Instruments) the Reference Obligation. In the event that a step-up in the coupon of the Reference Obligation occurs, the premium payable by the Synthetic Security Counterparty will be increased by the same number of basis points as the step-up. However, the Synthetic Security Counterparty will have the option to terminate the Synthetic Security if this occurs. Many RMBS securities incorporate step-up provisions.

In the event that Interest Shortfalls occur or a Synthetic Security Counterparty terminates a Credit Default Swap following a step-up in the interest coupon on the related Reference Obligation, the resulting

reduction or elimination of premiums payable by the Synthetic Security Counterparty will reduce Interest Proceeds otherwise available to pay interest on the Notes and make distributions to the Holders of Preferred Securities.

The CDO PAUG Credit Default Swaps are expected to provide that a Failure to Pay Interest with respect to a Reference Obligation is also a credit event which entitles the Credit Default Swap Counterparty to elect whether to require the Issuer to pay a Physical Settlement Amount.

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

Adverse Effect of Credit Events and Floating Amount Events. Payments on the Notes and distributions on the Preferred Securities will be adversely affected by the occurrence of Credit Events or Floating Amount Events under the Synthetic Securities. If a Floating Amount Event occurs, the Synthetic Security Counterparty will have a contingent obligation to reimburse the Issuer for the amount paid in the event of an Interest Reimbursement or Principal Reimbursement by the Reference Obligor. However, there is no guarantee that a reimbursement of payments in respect of such Floating Amount Event will occur or that reimbursement will fully compensate the Issuer, particularly because the Synthetic Security Counterparty will not pay interest on such amount to the Issuer. This will reduce the Interest Proceeds available to pay expenses of the Issuer, interest on the Notes and distributions on the Preferred Securities on each Quarterly Distribution Date.

Whether and when to declare a Credit Event and to deliver any notice that a Credit Event or a Floating Amount Event has occurred under a Long Credit Default Swap will be in the sole discretion of the Credit Default Swap Counterparty, and none of the Credit Default Swap Counterparty or any of its affiliates will have any liability to any Noteholder, any Holder of Preferred Securities or any other person as a result of giving (or not giving) any such notice under any Long Credit Default Swap. If a "Writedown," "Failure to Pay Principal" or (solely with respect to a Credit Event under a CDO PAUG Credit Default Swap) "Failure to Pay Interest" occurs, the Credit Default Counterparty may elect to require the Issuer to pay the Floating Amount or to treat it as a Credit Event and require the Issuer to pay the Physical Settlement Amount under such Long Credit Default Swap.

There is no guarantee as to the ability of the Issuer to sell or the timing of the sale of Deliverable Obligations delivered to the Issuer under Unhedged Long Credit Default Swaps, or whether the amount of Disposition Proceeds received by the Issuer upon the sale of such Deliverable Obligations will equal the Physical Settlement Amounts paid by the Issuer following the occurrence of the related Credit Events. Principal Proceeds available to pay the principal amount of the Notes and the Preferred Securities on any Redemption Date, at Stated Maturity 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 under Unhedged Long Credit Default Swaps.

The concentration of Reference Obligations 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 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.

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

Possible Early Termination of Synthetic Securities. The Issuer will enter into any Synthetic Securities pursuant to the ISDA Master Agreement with MLI, which may be terminated by the Issuer or by MLI, in the event that any event of default or termination event specified therein occurs with respect to the other party; if the ISDA Master Agreement is terminated, all of the Synthetic Securities made thereunder also will terminate and, except in the limited circumstances described herein, the Issuer will not be permitted to reinvest the proceeds of such termination if the Reinvestment Period has ended or if the proposed reinvestment does not satisfy the Eligibility Criteria, in which event the Interest Proceeds available to pay interest on the Notes and distributions on the Preferred Securities will be reduced. In addition, individual Synthetic Securities will terminate if certain events specified therein occur, in which event the Issuer will not be permitted to reinvest the proceeds thereof if the Reinvestment Period has ended or the proposed reinvestment does not satisfy the Eligibility Criteria.

Right of MLI to suspend payments to the Issuer. If the Issuer fails to make any payment or delivery when due to MLI under any Credit Default Swap, the Total Return Swap or the Class A-1 Swap or otherwise fails to perform any of its obligations under the ISDA Master Agreement, MLI may, in accordance with the terms of the ISDA Master Agreement, cease to make payments to the Issuer under the Credit Default Swap, the Total Return Swap and the Class A-1 Swap until the Issuer performs its obligations. If MLI were to suspend its performance under these transactions, it is unlikely that the Issuer could make payments on the Notes or the Credit Default Swaps when due and an Event of Default followed by liquidation of the Collateral could result, in which event the Holders of Preferred Securities and Noteholders are likely to suffer losses.

Leveraged Exposure to the Reference Obligations. The entry into credit default swaps by the Issuer may create leveraged exposure for the Noteholders and Holders of Preferred Securities to the credit of the Reference Obligations. Following the occurrence of a credit event (as defined in the relevant Synthetic Security) with respect to a Reference Obligation, the Issuer may be obligated under one or more of the credit default swaps to make a payment to the Synthetic Security Counterparty with respect to such Reference Obligation. If the credit default swap is "cash settled," the amount of such payments will be dependent on the final price determined with respect to such Reference Obligation under the credit default swap, which will depend on, among other things, the market value of such Reference Obligation. If the credit default is "physically settled" the Issuer will, if a "credit event" occurs, at the option of the Synthetic Security Counterparty, purchase the Reference Obligation for a price equal to the principal amount thereof, which is likely to greatly exceed its market value, if any.

Volatility of Market Value of Reference Obligations and Synthetic Securities. The market value of a Reference Obligation following such credit events 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 financial condition of the issuer of the Reference Obligation and the obligors of the securitized assets underlying an Asset-Backed Security and the terms of the Reference Obligation. Adverse changes in the financial condition of the issuers of the Reference Obligations or the obligors of the securitized assets underlying an Asset-Backed Security or in general economic conditions or both may result in credit events and a decline in the market value of the Reference Obligations. In addition, future periods of uncertainty in the United States economy and the economies of other countries in which issuers of the Reference Obligations (or the obligors of the securitized assets underlying an Asset-Backed Security) are domiciled and the possibility of increased volatility and default rates may also adversely affect the price and liquidity of the Reference Obligations. A decline in the market value of a Reference Obligation may result in a decline in the market value of the related Synthetic Security. As a result, if the Issuer attempts to liquidate any or all of the Synthetic Securities, the Issuer may incur a loss.

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

None of the Issuer, the Trustee, the Preferred Security Paying and Transfer Agent, the Collateral Manager or the holders of the Securities will have the right to inspect any records of the Credit Default Swap Counterparty or any other Synthetic Security Counterparty or the Reference Obligations, and the Credit Default Swap Counterparty and other Synthetic Security Counterparties will be under no obligation to disclose any further information or evidence regarding the existence or terms of any obligation of any Reference Obligation or any matters arising in relation thereto or otherwise regarding any Reference Obligation, any guarantor or any other person, unless and until, in the case of a Long Credit Default Swap, a Credit Event has occurred and the Credit Default Swap Counterparty or other Synthetic Security Counterparty in its capacity as buyer of protection provides a Notice of Publicly Available Information to the Issuer evidencing the occurrence of such Credit Event as required under the terms of the related CDS Credit Default Swap or other Synthetic Security. 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 Securities.

Illiquidity of Reference Obligations. Under any Synthetic Securities, the Issuer will have credit exposure to one or more of Reference Obligations. Ratings on the Reference Obligations may be downgraded or withdrawn after the Issuer enters into a Synthetic Security. Many of the Reference Obligations will have no, or only a limited, trading market. Trading in fixed income securities in general, including Asset-Backed Securities and derivatives thereof, takes place primarily in over-the-counter markets consisting of groups of dealer firms that are typically major securities firms. Because the market for Asset-Backed Securities and derivatives thereof is a dealer market, rather than an auction market, no single obtainable price for a given instrument prevails at any given time. Not all dealers maintain markets in all Asset-Backed Securities at all times. The illiquidity of Reference Obligations will restrict the Collateral Manager's ability to take advantage of market opportunities. Illiquid Reference Obligations may trade at a discount from comparable, more liquid investments. In addition, Reference Obligations may include privately placed securities that may or may not be freely transferable under the laws of the applicable jurisdiction or due to contractual restrictions on resale, and even if such privately placed securities are transferable, the value of such Reference Obligations could be less than what may be considered the fair value of such securities.

Reliance on Creditworthiness of the Credit Default Swap Counterparty and other Synthetic Security Counterparties. The ability of the Issuer to meet its obligations under the Securities will be dependent on its receipt of payments from the Credit Default Swap Counterparty under the ISDA Master Agreement and payments from other Synthetic Security Counterparties under other Synthetic Securities. Consequently, the Issuer is relying not only on the performance of the Reference Obligations, but also on the creditworthiness MLI as the Credit Default Swap Counterparty and the Total Return Swap Counterparty and other Synthetic Security Counterparties with respect to such payments. Because it is anticipated that the Issuer will enter into all or most, by Reference Obligation Notional Amount, of its Synthetic Securities with the Credit Default Swap Counterparty, there will be a degree of concentration

risk with respect to the credit risk in relation to the Credit Default Swap Counterparty. A reduction or withdrawal of any rating assigned by a Rating Agency to ML & Co. may result in the withdrawal or reduction by such Rating Agency of the rating assigned to any Class or Classes of the Notes or the Class A Preferred Securities.

Neither the Issuer nor the Collateral Manager on its behalf will perform an independent credit analysis of the Credit Default Swap Counterparty or any other Synthetic Security Counterparty. However, the Credit Default Swap Counterparty will agree to specific rating downgrade provisions acceptable to the Rating Agencies as a condition to entering into the ISDA Master Agreement with the Issuer (and other Synthetic Security Counterparties may agree to similar provisions under the related Synthetic Securities). A failure by the Credit Default Swap Counterparty to comply with these requirements may result in the termination in full of the ISDA Master Agreement (or, in the case of another Synthetic Security Counterparty, the Synthetic Securities entered into with such Synthetic Security Counterparty). In the event of any such termination, the Issuer may be required to make a termination payment to the Credit Default Swap Counterparty (or other Synthetic Security Counterparty) and the Credit Default Swap Counterparty (or other Synthetic Security Counterparty) will cease to pay Fixed Amounts to the Issuer. As a result, unless such Synthetic Securities are replaced, there will be less funds available to the Issuer to discharge its obligation to make payments in respect of the Notes and the Hedge Agreements and to make distributions on the Preferred Securities. The Issuer is therefore relying in part on the creditworthiness of the Credit Default Swap Counterparty (or other Synthetic Security Counterparty) with respect to the Credit Default Swap Counterparty's performance of its obligations to make payments to the Issuer. There can be no assurance that the Issuer would be able to locate a replacement Credit Default Swap Counterparty following termination of the Credit Default Swaps (or other replacement Synthetic Securities following the termination of other Synthetic Securities), particularly since the Issuer is a special purpose vehicle.

Intermediation Fee. The Issuer may only enter into Credit Default Swaps with MLI, unless a CDS Replacement has occurred. The Collateral Manager may obtain bids from Eligible Dealers solicited by it to enter into back-to-back credit default swap transactions with MLI on the same terms described herein, at a quoted fixed rate that is more favorable to the Issuer than the Fixed Rate at which MLI is willing to enter into a Credit Default Swap relating to the same Reference Obligation. In that event, the Credit Default Swap Counterparty may, but is not obligated to enter into a credit default swap transaction with the Eligible Dealer. If the Credit Default Swap Counterparty in its sole discretion elects to enter into a Credit Default Swap with the Issuer and a back-to-back hedging transaction with the Eligible Dealer, the fixed rate premium received by the Credit Default Swap Counterparty under a back-to-back hedging transaction related to a Long Credit Default Swap will be greater than the Fixed Rate payable by the Credit Default Swap Counterparty to the Issuer under such related Long Credit Default Swap and the fixed rate premium payable by the Credit Default Swap Counterparty under a back-to-back hedging transaction related to a Hedging Short Credit Default Swap will be less than the Fixed Rate received by the Credit Default Swap Counterparty from the Issuer under such related Hedging Short Credit Default Swap, in each case, by an amount representing an intermediation fee ("Intermediation Fee") of 0.03% *per annum* (or a different amount agreed upon by the Issuer and the Credit Default Swap Counterparty) payable to the Credit Default Swap Counterparty.

The Credit Default Swap Counterparty also may elect to enter into back-to-back credit default swaps with other dealers under which the Credit Default Swap Counterparty sells protection to those dealers on the same Reference Obligations on which the Issuer has sold protection to the Credit Default Swap Counterparty. In that event, the Credit Default Swap Counterparty may retain any amount paid to it by such dealers in excess of the amount which it pays to the Issuer.

MLI is the sole Credit Default Swap Counterparty. The Issuer is permitted to enter into Credit Default Swaps only with MLI unless a CDS Replacement has occurred. If MLI or its guarantor does not maintain the minimum ratings included in the definition of "Synthetic Security Counterparty," the Issuer will not be able to enter into Credit Default Swaps thereafter. If Collateral Manager determines that it would be in the best interests of the Issuer to enter into a Credit Default Swap relating to a Reference Obligation but MLI is not willing to enter into such transaction or offers terms that are not acceptable to the Collateral Manager, the Issuer will not be able to enter into the Credit Default Swap. Similarly, if it would be in the best interests of the Issuer to terminate a Credit Default Swap or to enter into a Hedging Short Credit Default Swap with respect to the Reference Obligation, but MLI is not willing to enter into or terminate such transaction or offers terms that are not acceptable to the Collateral Manager, the Issuer will not be able to terminate or hedge such Credit Default Swap.

Calculation Agency Function of Credit Default Swap Counterparty. MLI will be the calculation agent under the ISDA Master Agreement which will determine the amount of any Floating Amounts and Physical Settlement Amount(s) for each Credit Event payable by the Issuer in respect of the Credit Default Swaps. The Credit Default Swap Counterparty also will act as the calculation agent under the ISDA Master Agreement. Other Synthetic Securities may provide that the Synthetic Security Counterparty is appointed by the Issuer as the calculation agent with respect to such transactions. The performance by the Credit Default Swap Counterparty or any other Synthetic Security Counterparty of its duties as calculation agent may result in potential and actual conflicts of interest between its role as calculation agent and its own economic interests as a party to the relevant transaction.

Reinvestment Period; Entering into Additional Credit Default Swaps. The Collateral Manager (on behalf of the Issuer) may apply Uninvested Proceeds, Principal Proceeds and Disposition Proceeds during the Reinvestment Period to Acquire additional Defeased Synthetic Securities or to increase the CDS Reserve Account Balance (so that the Issuer may Acquire additional Credit Default Swaps) and may use CDS Principal Proceeds during the Reinvestment Period to Acquire replacement Credit Default Swaps. Although additional Credit Default Swaps will be subject to the Collateral Quality Tests and certain Eligibility Criteria, the composition of the portfolio of Collateral could change as a result of such reinvestment by the Collateral Manager. It is possible that the Reference Obligations relating to additional credit default swap transactions will not perform as well as the portfolio of Collateral on the Closing Date. In addition, because the Issuer will not be able to terminate Synthetic Securities (including the Credit Default Swaps) as easily as it would be able to buy and sell the related Reference Obligations, and will not be able to terminate such Synthetic Securities without the consent of the related Synthetic Security Counterparty, the Issuer may not be able to manage its exposure to the related Reference Obligations as easily as it would if it purchased such Reference Obligations directly.

Hedging Short Credit Default Swaps. The Collateral Manager, on behalf of the Issuer, will have the discretion to enter into Hedging Short Credit Default Swaps in respect of Unhedged Long Credit Default Swaps. With respect to Hedged Long 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 Credit Default Swap Counterparty of its obligations under the related Hedging Short Credit Default Swaps). In the event that the Issuer enters into a Hedging Short Credit Default Swap with respect to a Long Credit Default Swap that is a Credit Risk Security, a Defaulted Security or a Written Down Security, the Issuer will most likely be obligated to pay a Fixed Amount under the Hedging Short Credit Default Swap in excess of the Fixed Amount which it receives under the Hedged Long Credit Default Swap, which may adversely affect the amount of Interest Proceeds available to make payments in respect of the Securities. In these circumstances, upon termination of the Hedged Long Credit Default Swap and the Hedging Short Credit Default Swap, the Issuer will be required to make a termination payment to the Credit Default Swap Counterparty.

*Credit Default Swap Counterparty Acts In Its Own Interest.* In taking any action with respect to the Credit Default Swaps, the Credit Default Swap Counterparty will be acting solely in its own interests, and not as agent, fiduciary or in any other capacity on behalf of the Co-Issuers, the Placement Agent, the Initial Purchasers, the Collateral Manager or the holders of the Securities. The Credit Default Swap Counterparty will have no duty whatsoever to consider the effects of its actions or failure to take action on the holders of the Securities. The Credit Default Swap Counterparty is likely to seek to eliminate any credit exposure to the Reference Obligations by entering into back-to-back hedging transactions. As a result, the settlement amount owed by the Issuer in respect of the settlement of any Long Credit Default Swap minus the market value of any Deliverable Obligations received by the Issuer upon such settlement may be more than the actual loss, if any, incurred by the Credit Default Swap Counterparty upon such settlement and the settlement of any related back-to-back hedging transactions.

The Credit Default Swap Counterparty, in its capacity as counterparty to the Credit Default Swaps, will have extensive consent rights under the Indenture and the Collateral Management Agreement. The interests of the Credit Default Swap Counterparty may not be aligned with those of the holders of the Securities.

*Physical Settlement.* Under Long Credit Default Swaps, in the event that the applicable conditions to settlement have been satisfied after the occurrence of a Credit Event, 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 and the Credit Default Swap Counterparty or other Synthetic Security Counterparty will be obligated to deliver one or more Deliverable Obligations.

The Collateral Manager is entitled to Dispose of any Deliverable Obligations in accordance with the procedures described in "Security for the Notes—Disposition of Collateral Debt Securities." There is, however, no guarantee that the Collateral Manager will succeed in Disposing of any Deliverable Obligation, and the time required to sell a Deliverable Obligation cannot be predicted. If a Deliverable Obligation is Disposed of, there is no guarantee that the Disposition Proceeds of the Deliverable Obligation will result in Disposition Proceeds to the Issuer in respect of the related Credit Event equivalent to the Physical Settlement Amount. The market value of the Deliverable Obligation delivered by the Credit Default Swap Counterparty or other Synthetic Security 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 which it has received under a Long Credit Default Swap at a price which the Collateral Manager believes accurately reflects its recovery value. 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 Obligor, 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 Obligor may be insolvent. These factors may adversely impact the price and liquidity of the Deliverable Obligations. This may adversely affect payments on the Notes and distributions in respect of the Preferred Securities.

*Illiquid Market for Credit Default Swaps.* The market for credit default swaps on Asset-Backed Securities has only existed for a few years and is less liquid than the market for credit default swaps on investment grade corporate reference entities. Credit default swaps with "pay as you go" credit events have only recently been introduced into the market, and the terms may change significantly after the Closing Date (which will make it more difficult for the Issuer to liquidate the Synthetic Securities). The current premiums that a "buyer" of protection will pay under credit default swaps for reference obligations that are Asset-Backed Securities are at very low levels (as compared to the levels during the



past five years). This results in part from the fact that the current interest rate spreads over LIBOR (or, in the case of fixed rate Asset-Backed Securities, over the applicable U.S. swap rate) on Asset-Backed Securities are at very low levels (compared to the levels during the past ten years); in the event that such interest rate spreads widen or the prevailing credit premiums on credit default swaps on Asset-Backed Securities increase after the Closing Date, the amount of the termination payment due from the Issuer to the Synthetic Security Counterparties could increase by a substantial amount. If the Issuer is required to make substantial payments to the Synthetic Security Counterparties in order to terminate the Synthetic Securities, it may be difficult for the Issuer to Dispose of the Synthetic Securities as part of the Collateral Manager's portfolio management and it may be difficult to satisfy the conditions for a redemption of the Notes or for a liquidation of the Collateral after an Event of Default. The Issuer may make termination payments to Synthetic Security Counterparties from Interest Proceeds, which will reduce the amounts available to pay interest on the Notes and for distributions on the Preferred Securities.

*Uncertainty Regarding the Terms of the Synthetic Securities.* The description in this Offering Circular of the Synthetic Securities with respect to Reference Obligations that are RMBS and CMBS (including the Credit Events and Floating Amount Events and the consequences thereof) which have been entered into between the Credit Default Swap Counterparty and the Issuer on the Closing Date is based on a modified form of the form of "Credit Derivative Transaction on Mortgage-Backed Security with Pay-As-You-Go or Physical Settlement (Dealer Form)" Credit Default Swap published by ISDA in January 2006 and as amended in April 2006. In addition, the description in this Offering Circular of the Synthetic Securities related to CDO Obligations (including the Credit Events and Floating Amount Events and the consequences thereof) is based on a modified form of the form of "Credit Derivative Transaction on Mortgage-Backed Security with Pay-As-You-Go or Physical Settlement (Dealer Form)" Credit Default Swap published by ISDA in June 2006. However, the Issuer and the Credit Default Swap Counterparty may adopt different forms of confirmations for Synthetic Securities made after the Closing Date, without obtaining consent from the holders of any of the Securities. In such event, the terms of the Synthetic Securities may be materially different from the terms of the Synthetic Securities entered into on the Closing Date, and such terms may be adverse to the interests of the Issuer and the holders of Securities.

In general, credit default swaps with "pay-as-you-go or physical settlement" mechanics are a new type of credit default swap developed to incorporate the unique structures of Asset-Backed Securities, in particular those of CMBS, RMBS and CDO Obligations. Given that this market has recently developed and the forms have recently been published by ISDA, it is possible that ISDA may amend the current forms. In addition, ISDA may adopt new forms for other types of Asset-Backed Securities. While ISDA has published forms of confirmations for documenting credit default swaps with "pay as you go or physical settlement" mechanics and has published and supplemented the ISDA Credit Derivatives Definitions in order to facilitate transactions and promote uniformity in the credit default swap market, the credit default swap market is expected to change and the confirmation used to document credit default swaps with "pay as you go or physical settlement" mechanics and the ISDA Credit Derivatives Definitions and terms applied to credit derivatives are subject to interpretation and further evolution. Past events have shown that the views of market participants may differ as to how the ISDA Credit Derivatives Definitions operate or should operate.

The confirmations with "pay as you go or physical settlement" mechanics and the ISDA Credit Derivatives Definitions are expected to continue to evolve. There can be no assurance that changes to the confirmations with "pay as you go or physical settlement" mechanics and the ISDA Credit Derivatives Definitions and other terms applicable to credit derivatives generally will be predictable or favorable to the Issuer. Amendments or supplements to the ISDA forms with "pay as you go or physical settlement" mechanics and the ISDA Credit Derivatives Definitions that are published by ISDA will only apply to credit default swaps if the Issuer and the Synthetic Security Counterparty agree to amend the credit

default swaps between them to incorporate such amendments or supplements. As a result of the continued evolution of the forms of confirmation used to document credit default swaps with Reference Obligations that are Asset-Backed Securities that have "pay as you go or physical settlement" mechanics, the confirmations used to document existing Synthetic Securities may differ from the future market standard. Such a result may have a negative impact on the liquidity and market value of the Synthetic Securities.

Therefore, in addition to the credit risk of the Reference Obligations and the credit risk of the Synthetic Security Counterparty, the Issuer is also subject to the risk that the ISDA Credit Derivatives Definitions or the Credit Default Swap confirmation could be interpreted in a manner that would be adverse to the Issuer or that the credit derivatives market generally may evolve in manner that would be adverse to the Issuer.

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

In accordance with the terms of the applicable Defeased Synthetic Securities, funds in a Synthetic Security Counterparty Account will be invested in Eligible Investments or other Synthetic Security Collateral designated by the Synthetic Security Counterparty and approved by the Collateral Manager, which may be subject to derivatives transactions (including total return swaps) between the Issuer and the Synthetic Security Counterparty (or, subject to the consent of the Synthetic Security Counterparty and satisfaction of the Rating Condition, between the Issuer and other parties). The Issuer will be required to reinvest any principal payments on the Synthetic Security Collateral received by it in other Synthetic Security Collateral approved by the Synthetic Security Counterparty; the yield on such replacement Synthetic Security Collateral may be lower than the yield on the original Synthetic Security Collateral, in which event the Interest Proceeds in each Due Period will be reduced and may not be sufficient to pay interest on all Classes of Notes and to make distributions on the Preferred Securities. The Synthetic Security Counterparty will have the right to cause the Issuer to invest the Synthetic Security Collateral in Eligible Investments. If the Synthetic Security Collateral consists of Eligible Investments, the return received by the Issuer on the Synthetic Securities will be lower than if the Synthetic Security Collateral consists of Asset-Backed Securities, and as a result the Interest Proceeds in each Due Period will be reduced. A prospective investor evaluating an investment in the Securities should assume that the interest income to the Issuer on the Synthetic Security Collateral will be no higher than the interest rate which the Issuer earns on Eligible Investments.

After payment of all amounts owing by the Issuer to the Synthetic Security Counterparty or a default which entitles the Issuer to terminate its obligations under such Synthetic Security, funds and other property standing to the credit of the Synthetic Security Counterparty Account related to such Defeased Synthetic Security will be credited to the Principal Collection Account (in the case of Cash and Eligible Investments) or the Custodial Account (in the case of Synthetic Security Collateral other than Cash and Eligible Investments). There can be no assurance that in such event the Pledged Collateral Debt

Securities (as a whole) will meet the Eligibility Criteria. See "Security for the Notes—The Accounts—Synthetic Security Counterparty Accounts."

### **Risk Factors Relating to the Total Return Swap.**

The Issuer expects to enter into, on or shortly after the Closing Date, a Total Return Swap with MLI relating to the Synthetic Security Collateral in the CDS Reserve Account. Under the Total Return Swap, (i) MLI will have the right to approve the Synthetic Security Collateral, (ii) the Issuer will pay to MLI the yield on any Synthetic Security Collateral approved by MLI and MLI will pay to the Issuer the Total Return Swap LIBOR Payment, (iii) MLI will have the right to terminate (in part or in whole) these transactions, and (iv) upon termination of any of these transactions (in part or in whole) the Issuer may be required to pay a termination payment to MLI.

If Credit Events or Floating Amount Events (other than Interest Shortfalls) occur under Synthetic Securities, each Physical Settlement Amount and each Floating Amount paid from the CDS Reserve Account will reduce the notional amount of the Total Return Swap and, as a result, reduce Total Return Swap LIBOR Payment that 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 and interest on the Notes and distributions on the Preferred Securities on each Quarterly Distribution Date. Principal Proceeds available to pay the principal amount of the Notes on any Redemption Date, at Stated Maturity, or on liquidation of the Collateral following an Event of Default also will be reduced by each Floating Amount (other than in respect of an Interest Shortfall) and each Physical Settlement Amount payable by the Issuer.

MLI will have the discretion in certain circumstances to terminate in whole, or to reduce the notional amount of, the Total Return Swap. See "Security for the Notes—Total Return Swap." In the event that the MLI terminates the Total Return Swap, no further Total Return Swap LIBOR Payments will be made by MLI to the Issuer, and if MLI reduces the notional amount of the Total Return Swap, the Total Return Swap LIBOR Payment that will accrue and be paid to the Issuer under the Total Return Swap will be reduced. The Issuer is not likely to find an alternative investment for the CDS Reserve Account which yields an amount equal to the Total Return Swap LIBOR Payment. This will reduce the Interest Proceeds available to pay expenses of the Issuer and interest on the Notes and distributions on the Preferred Securities on each Quarterly Distribution Date. If the notional amount of the Total Return Swap decreases as a result of a Discretionary Disposition or on a date which is not a Quarterly Distribution Date, the Issuer may be obligated to pay a LIBOR Breakage Amount or a Hedging Amount to MLI. If the Issuer is obligated to pay either a LIBOR Breakage Amount or a Hedging Amount, such amount will be deducted from the first payment by MLI to occur under the Total Return Swap of either the Total Return Swap LIBOR Payment or the Positive Total Return Amount. The Issuer will receive less from MLI had no LIBOR Breakage Amount or Hedging Amount been due, which will reduce amounts available to pay the Noteholders and Holders of Preferred Securities. See "Security for the Notes—Total Return Swap."

### **Risk Factors Relating to Conflicts of Interest and Dependence on the Collateral Manager.**

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

*Conflicts of Interest Involving the Collateral Manager.* Various potential and actual conflicts of interest may arise from the overall advisory, investment and other activities of the Collateral Manager, its affiliates or any funds managed by them and their respective clients and employees. The following briefly summarizes some of these conflicts, but is not intended to be an exhaustive list of all such conflicts.

Notwithstanding certain provisions of the Investment Advisers Act of 1940, as amended (the "Advisers Act"), and internal policies of the Collateral Manager, that are meant to reduce the possibility of, or effect of, conflicts of interest, the size and scope of activities of the Collateral Manager create various potential and actual conflicts of interest that may arise from the advisory, investment and other activities of the Collateral Manager, its affiliates and their respective clients and employees.

Harding Advisory LLC ("Harding Advisory") is a Delaware limited liability company organized on February 22, 2006. Harding Advisory is a registered investment adviser under the Investment Advisers Act of 1940. Harding Advisory has a limited operating history. Mr. Wing Chau currently owns substantially all of the membership interests of Harding Advisory.

Harding Advisory may share with Maxim Advisory LLC ("Maxim") a portion of the management fees it receives from the Issuer under the Collateral Management Agreement, but Maxim will not be responsible for managing any portion of the Collateral and will not have any obligations to the Issuer, the Trustee or the holders of the Offered Securities. None of the Issuer, the Trustee and the holders of the Offered Securities will have any claim against Maxim for any actions taken by the Collateral Manager.

The Collateral Manager provides investment advisory services to clients on a discretionary and non-discretionary basis. For discretionary accounts, the Collateral Manager will have discretionary authority to buy or sell securities, as well as to specify the amount of securities to invest, without obtaining its client's consent. Various potential and actual conflicts of interest may arise from the overall investment activities of the Collateral Manager and its affiliates for their own accounts or for the accounts of others. The Collateral Manager and its affiliates may invest for their own accounts or for the accounts of others in debt obligations or other securities that would be appropriate investments for the Issuer and they have no duty, in making such investments, to act in a way that is favorable to the Issuer, the Noteholders or the Holders of Preferred Securities. Such investments may be different from those made on behalf of the Issuer. The Collateral Manager and/or its affiliates have no affirmative obligation to offer any investment to the Issuer, or to inform the Issuer of any investment opportunity before offering such investment to other funds or accounts that the Collateral Manager or its affiliates may manage, advise or deal with or before acting upon such opportunity for their own account. The Collateral Manager and its affiliates may have economic interests in or other relationships with issuers in whose obligations or securities the Issuer may invest. In particular, such persons may make and/or hold an investment in an issuer's securities that may be *pari passu*, senior or junior in ranking to an investment in such issuer's securities made and/or held by the Issuer or in which partners, security holders, officers, directors, agents or employees of such persons serve on boards of directors or otherwise have ongoing relationships. Each of such ownership and other relationships may result in securities laws restrictions on transactions in such securities by the Issuer and otherwise create conflicts of interest for the Issuer. In such instances, the Collateral Manager and its affiliates may in their sole discretion make investment recommendations and decisions for itself and others that may be the same as or different from those made for the Issuer with respect to the Collateral. In certain circumstances as described under "Security for the Notes—Dispositions of Collateral Debt Securities," the Collateral Manager on behalf of the Issuer is required to take certain actions with respect to Dispositions of the Collateral.

Although the officers and employees of the Collateral Manager will devote as much time to the Issuer as the Collateral Manager deems appropriate, the officers and key professionals of the Collateral

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

The Indenture and the Collateral Management Agreement place significant restrictions on the Collateral Manager's ability to advise the Issuer to buy or sell securities for inclusion in the Collateral. Accordingly, during certain periods or in certain specified circumstances, the Collateral Manager's compliance with such restrictions may prohibit the Issuer from buying or selling securities or taking other actions that the Collateral Manager, absent such restrictions, might consider in the best interest of the Issuer, the Noteholders or the Holders of Preferred Securities.

The Collateral Manager and any of its affiliates may engage in other businesses, which furnishing investment management and advisory services to others, including, without limitation, serving as collateral manager or investment manager for, investing in, lending to, or being affiliated with, other entities organized to issue collateralized bond obligations secured by securities such as the Collateral Debt Securities held by the Issuer and other trusts and pooled investment vehicles that acquire interests in, provide financing to, or otherwise deal with securities issued by issuers that would be suitable investments for the Issuer. The Collateral Manager and its affiliates will be free, in their sole discretion, to make recommendations to others, or effect transactions on behalf of themselves or for others, that may be the same as or different from those effected on behalf of the Issuer, and the Collateral Manager and its affiliates may furnish investment management and advisory services to others who may have investment policies similar to those followed by the Collateral Manager with respect to the Issuer and who may own securities of the same class, or which are the same type as, the Collateral Debt Securities held by the Issuer.

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

The Collateral Manager serves as collateral manager for Lexington Capital Funding II, Ltd. and Jupiter High-Grade CDO IV Ltd., special purpose entities that issued CDO Securities in June 2006. Harding Advisory also serves as a sub-advisor to Maxim for Jupiter High-Grade CDO Ltd., Jupiter High-Grade CDO II Ltd., Jupiter High-Grade CDO III Ltd. and Lexington Capital Funding, Ltd., special purpose entities that in December 2004, March 2005, August 2005 and October 2005, respectively, issued

CDO Securities and for which Maxim acts as the collateral manager. In addition, the Collateral Manager or its affiliates may serve as a general partner and/or manager of additional special purpose entities organized to issue collateralized debt obligations secured by debt obligations. The Collateral Manager and its affiliates may make investment decisions for their own account or for the accounts of others, including other special purpose entities organized to issue collateralized debt obligations, that may be different from those made by the Collateral Manager on behalf of the Issuer. The Collateral Manager or its affiliates may at certain times simultaneously seek to purchase (or sell) investments for the account of the Issuer and sell (or purchase) the same investment for other clients, including other collateralized debt obligation vehicles for which it may serve as manager currently or in the future, or for its affiliates or their clients. In the course of managing the Collateral Debt Securities held by the Issuer, the Collateral Manager may consider its relationships with its other clients, its affiliates and the clients of its affiliates (including companies the securities of which are pledged to secure the Notes). The Collateral Manager may decline to make a particular investment for the Issuer in view of such relationships. The effects of some of the conflicts of interest described in this section may have an adverse impact on the market from which the Collateral Manager seeks to buy, or to which the Collateral Manager seeks to sell, securities on behalf of the Issuer. The Collateral Manager may also at certain times simultaneously seek to purchase investments for the Issuer and/or other clients, including other collateralized debt obligation vehicles for which it may serve as manager currently or in the future, or for its affiliates or their clients. Such ownership and such other relationships may result in securities laws restrictions on transactions in such securities by the Issuer.

The Collateral Management Agreement and the Indenture do not prohibit the Issuer from (i) purchasing Collateral Debt Securities from the Collateral Manager, its affiliates or any of their respective clients or (ii) purchasing Collateral Debt Securities issued by any fund or entity owned or managed by the Collateral Manager, its affiliates or any of their respective clients, if the Issuer (a) will have received from the Collateral Manager such information relating to such Acquisition as it may reasonably require and (b) will have approved such Acquisition (for which purpose the Collateral Manager shall not have authority to act on behalf of the Issuer) must otherwise be consistent with applicable law and the Collateral Management Agreement.

In the event that the Collateral Manager directs the Trustee to purchase Collateral Debt Securities from the Collateral Manager, its affiliates or from any account or portfolio for which the Collateral Manager or any of its affiliates serves as investment advisor or as principal or sell Collateral Debt Securities or Equity Securities to the Collateral Manager, its affiliates or any account or portfolio for which the Collateral Manager or any of its affiliates serves as investment advisor, the Collateral Manager must first obtain the approval of the Directors of the Issuer for such purchases.

The Collateral Manager may not effect agency cross transactions where the Collateral Manager causes a transaction to be effected between the Issuer and another account advised by the Collateral Manager or its affiliates unless such transactions are (i) exempt from the prohibited transaction rules of ERISA and the Code and will be consummated on the terms prevailing in the market and (ii) in compliance with the Advisers Act. Client cross transactions enable the Collateral Manager to purchase or sell a block of securities for the Issuer at a set price and possibly avoid an unfavorable price movement that may be created through entrance into the market with such purchase or sell order. Under the Collateral Management Agreement, the Issuer will authorize the Collateral Manager to execute such client cross transactions; *provided, however*, that if and to the extent required by the Advisers Act, such authorization is terminable at the Issuer's option without penalty, effective upon receipt by the Collateral Manager of written notice from the Issuer. By purchasing Securities, each investor shall be deemed to have consented to the transactions and procedures described above relating to principal trades and client cross transactions.

In the foregoing situations, the Collateral Manager and its affiliates may have a potentially conflicting division of loyalties regarding both parties in the transaction. If an affiliate of the Collateral Manager acts as a broker in an agency cross transaction, or acts as principal in a principal transaction, such affiliate may receive commissions or other compensation from one or both of the parties in the transaction. Such affiliate may have interests in such transactions that are adverse to those of the Issuer, such as an interest in obtaining favorable commissions and the officers and employees of the Collateral Manager who are also officers and employees of any such affiliate may receive compensation related to the affiliate's participation in such transactions.

Affiliates of the Collateral Manager and their officers and employees may purchase Notes without additional restrictions. Neither the Collateral Manager nor any of its affiliates nor any officers of the Collateral Manager or any affiliate is under any obligation to hold any Notes so purchased for any period of time. There will be no restriction on the ability of the Collateral Manager or its affiliates or employees to purchase the Securities (either upon initial issuance or through secondary transfers) and to exercise any voting rights to which such Securities are entitled, except that Securities held by the Collateral Manager, certain of its affiliates and their respective employees or by an account or fund for which the Collateral Manager, or an affiliate thereof, acts as the investment advisor ("Collateral Manager Securities") shall be disregarded with respect to voting rights under certain circumstances as described in the Indenture and the Collateral Management Agreement, in relation to the removal of the Collateral Manager). The Indenture and the Collateral Management Agreement do not otherwise restrict the ability of the Collateral Manager and its affiliates to vote the Securities held by them or by clients or accounts for which they have discretionary authority. The Indenture requires the written consent of the Collateral Manager to any amendment of the Indenture that modifies the rights or increases the obligations of the Collateral Manager or affects the manner in which the Collateral Manager manages the portfolio of Collateral Debt Securities.

Although the Collateral Manager or its affiliates or its clients may at times be a holder of Securities, its interests and incentives will not necessarily be completely aligned with those of the other holders of the Securities (or of the holders of any particular Class of the Notes or the Preferred Securities). The ownership of a Class of Notes by it and its affiliates may give the Collateral Manager an incentive to take actions that vary from the interests of the holders of the Preferred Securities or other Classes of Notes.

Subject to the limitations set forth in the Collateral Management Agreement, the Collateral Manager or any of its affiliates may render services of any kind to any person or entity, including, without limitation, the issuer of any obligation included in the Collateral or any of such issuer's affiliates, the Trustee, the holders of the Securities or any Hedge Counterparty. Without limiting the generality of the foregoing, the Collateral Manager, its affiliates and their respective directors, officers, employees and agents may, among other things: (a) subject to the limitations set forth in the Collateral Management Agreement, serve as directors, partners, officers, employees, agents, nominees or signatories for any issuer of any obligation included in the Collateral; (b) subject to the limitations set forth in the Collateral Management Agreement, receive fees for services rendered to the issuer of any obligation included in the Collateral or any affiliate thereof; (c) be retained to provide services unrelated to the Collateral Management Agreement to the Issuer or its affiliates and be paid therefor; (d) subject to the limitations set forth in the Collateral Management Agreement, be a secured or unsecured creditor of, and/or hold an equity interest in, any issuer of any obligation included in the Collateral; or (e) serve as a member of any "creditors committee" with respect to any obligation included in the Collateral which has become or, in the Collateral Manager's reasonable opinion, may become a Defaulted Security. Services of this kind may lead to conflicts of interest with the Collateral Manager, and may lead individual officers or employees of the Collateral Manager to act in a manner adverse to the Issuer.

The Collateral Management Agreement requires the Collateral Manager to seek to obtain, on an arm's length basis, the best execution for all orders placed with respect to the Collateral, considering all circumstances that are relevant in its reasonable determination, including price (including any applicable dealer spread or commission), size of order and difficulty of execution, operational facilities of the firm involved and such firm's risk in positioning a block of securities. Subject to the objective of obtaining best execution, the Collateral Manager may, in the allocation of business, take into consideration research and other brokerage services furnished to the Collateral Manager or its affiliates by brokers and dealers that are not affiliates of the Collateral Manager. Such services may be used by the Collateral Manager or its affiliates in connection with its other advisory activities or investment operations. The Collateral Management Agreement provides that the Collateral Manager may aggregate sales and purchase orders of securities placed with respect to the Collateral with similar orders being made simultaneously for other accounts managed by the Collateral Manager or with accounts of the affiliates of the Collateral Manager if the Collateral Manager in its sole discretion determines such aggregation shall (i) result in an overall economic benefit to the Issuer or (ii) not have a materially adverse effect on the Issuer, in each case taking into consideration the advantageous selling or purchase price, brokerage commission and other expenses. If a sale or purchase of a Collateral Debt Security, Eligible Investment or Equity Security (in accordance with the terms of the Indenture) occurs as part of any aggregate sale or purchase order, the objective of the Collateral Manager (and any of its affiliates involved in such transactions) shall be to allocate the executions among the relevant accounts in an equitable manner (taking into account constraints imposed by the Eligibility Criteria in the Indenture).

In addition to the foregoing, the Collateral Management Agreement provides that, subject to the requirements of the Collateral Management Agreement, the objective of obtaining best execution and provisions of applicable law, the Collateral Manager may, on behalf of the Issuer, direct the Trustee to acquire Collateral Debt Securities or Eligible Investments from, or sell Collateral Debt Securities or Eligible Investments to, the Initial Purchaser or the Placement Agent and their respective affiliates or affiliates of the Collateral Manager.

*Conflicts of Interest Involving the Placement Agent.* Certain of the Collateral Debt Securities acquired or to be acquired by the Issuer may consist of obligations of issuers or obligors, or obligations sponsored or serviced by companies, for which Cohen & Company Securities, LLC or an affiliate thereof has acted as underwriter, agent, placement agent or dealer or for which Cohen & Company Securities, LLC or an affiliate thereof has acted as lender or provided other commercial or investment banking services. Cohen & Company Securities, LLC or an affiliate thereof may structure issues of Collateral Debt Securities and arrange to place such Collateral Debt Securities with the Issuer. In addition, Cohen & Company Securities, LLC or its affiliates may from time to time enter into derivative transactions with third parties with respect to the Securities or with respect to Collateral Debt Securities acquired by the Issuer, and Cohen & Company Securities, LLC or its affiliates may, in connection therewith, acquire (or establish long, short or derivative financial positions with respect to) Securities, Collateral Debt Securities or one or more portfolios of financial assets similar to the portfolio of Collateral Debt Securities acquired by (or intended to be acquired by) the Issuer. These activities may create certain conflicts of interest, and there can be no assurance that the terms on which the Issuer entered into (or enters into) any of the foregoing transactions with Cohen & Company Securities, LLC (or an affiliate thereof) were or are the most favorable terms available in the market at the time from other potential counterparties.

*Certain Conflicts of Interest Involving the Initial Purchaser.* Certain of the Collateral Debt Securities Acquired or to be Acquired by the Issuer consist of obligations of issuers or obligors, or obligations sponsored or serviced by companies, for which the Initial Purchaser or an affiliate of the Initial Purchaser has acted as underwriter, agent, placement agent or dealer or for which the Initial Purchaser or an affiliate of the Initial Purchaser has acted as lender or provided other commercial or investment banking services. The Initial Purchaser or affiliates of the Initial Purchaser may structure



issues of Collateral Debt Securities and arrange to place such Collateral Debt Securities with the Issuer. The Initial Purchaser or an affiliate thereof also may have acted as underwriter, agent, placement agent or dealer for a significant portion of the CDO Obligations. In addition, Merrill Lynch International ("MLI"), an affiliate of the Initial Purchaser, will act as Credit Default Swap Counterparty with respect to all of the Credit Default Swaps, which will be all of the Synthetic Securities Acquired (or entered into) by the Issuer on the Closing Date, has the exclusive right to enter into Synthetic Securities with the Issuer that are not Deferred Synthetic Securities and Merrill Lynch Capital Services, Inc. ("MLCS"), an affiliate of the Initial Purchaser will act as the Initial Hedge Counterparty under one or more Hedge Agreements with the Issuer.

An affiliate of the Initial Purchaser (or an investment vehicle advised by the Initial Purchaser) may purchase Notes on the Closing Date and, as a result, to the extent that any such Class of Notes becomes the Controlling Class, the Initial Purchaser may be able to exercise the rights of the Controlling Class. On or after the Closing Date, the Initial Purchaser may purchase other Securities. The Initial Purchaser will be entitled to vote any Securities that it acquires with respect to all matters. On the Closing Date, MLI will be the Class A-1 Swap Counterparty. As the Class A-1 Swap Counterparty, MLI will have the right to exercise all of the voting and consent rights of the Class A-1 Notes and, therefore, will be able to exercise the rights of the Controlling Class. As a result, MLI will have the right to determine whether or not the Collateral will be liquidated following an Event of Default and other important matters to be decided by holders of the Controlling Class. When MLI exercises the rights of the Controlling Class, it will not act as a fiduciary for the Noteholders or the Holders of Preferred Securities or have any obligation to consider the effects of its actions on the Issuer, the Noteholders or Holders of Preferred Securities, but instead it will take such actions as it deems to be in its own commercial interests.

MLI may enter into credit derivative transactions under which it "buys" credit protection from an institution (the "Credit Protection Provider") with respect to the Class A-1 Swap and the Class A-1 Notes, and in such event MLI will agree to follow the directions of the Credit Protection Provider when it exercises the voting rights of the Class A-1 Swap Counterparty, including the rights of the Controlling Class. MLI may give notice to the Trustee, assigning all of MLI's voting and consent rights as the Class A-1 Swap Counterparty and as a Class A-1 Noteholder to the Credit Protection Provider. When it exercises rights as the Class A-1 Swap Counterparty and a Class A-1 Noteholder (or the rights of the Controlling Class) MLI (or the Credit Protection Provider) will act in its own commercial interests and will have no obligation to consider the effect of its actions on the Issuer, the Noteholders or the Holders of Preferred Securities. Neither the Issuer, nor the Noteholders or the Holders of Preferred Securities, will have any rights against the Credit Protection Provider or receive the benefit of any payments made by it to MLI.

It is currently anticipated that MLI will act as counterparty to all Synthetic Securities Acquired (or entered into) by the Issuer on the Closing Date, and MLI may act as the counterparty with respect to any additional Synthetic Securities Acquired or entered into by the Issuer after the Closing Date. MLI (or the Initial Purchaser or any other affiliates thereof that serve as a counterparty under a Synthetic Security) may, in its role as counterparty to all or a portion of the Synthetic Securities, make determinations regarding those Reference Obligations (including a decision to give notice that a credit event or "floating amount event" has occurred and to require the Issuer to make payments to it) which may have an adverse effect on the ability of the Issuer to make payments on the Notes and the Preferred Securities. Moreover, the Initial Purchaser or its affiliates may from time to time enter into derivative transactions with third parties with respect to the Securities or with respect to Collateral Debt Securities Acquired by the Issuer, and the Initial Purchaser or its affiliates may, in connection therewith, acquire (or establish long, short or derivative financial positions with respect to) Securities, Collateral Debt Securities or one or more portfolios of financial assets similar to the portfolio of Collateral Debt Securities Acquired by (or

intended to be acquired by) the Issuer. It is anticipated that, on or shortly after the Closing Date, MLI (or another affiliate of the Initial Purchaser) will enter into a total return swap transaction relating to the Synthetic Security Collateral in the CDS Reserve Account that will expose the Issuer to the credit risk of MLI (or such other affiliate of the Initial Purchaser that serves as the counterparty under such transaction) and will give MLI the right to approve or designate the Synthetic Security Collateral to be purchased by the Issuer in the CDS Reserve Account.

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

These activities create certain conflicts of interest, and there can be no assurance that the terms on which the Issuer entered into (or enters into) any of the foregoing transactions with the Initial Purchaser (or an affiliate thereof) were or are the most favorable terms available in the market at the time from other potential counterparties. Neither the Initial Purchaser nor any of its affiliates will act as fiduciaries for the Issuer in any of the capacities listed above. The Initial Purchaser and each of its affiliates will take such actions, in each of the capacities listed above, as it deems to be in its own commercial interests and will have no obligation to consider the effect of its actions on the Issuer, Noteholders or Holders of Preferred Securities.

*Conflicts of Interest of Credit Default Swap Counterparty.* MLI will, in its role as Credit Default Swap Counterparty for all of the Credit Default Swaps, have the right to make determinations regarding the Reference Obligations (including a decision to give notice that a credit event or "floating amount event" has occurred and require the Issuer to make payments to it). In addition, MLI, as Credit Default Swap Counterparty to the Synthetic Securities, will have sole discretion to determine whether and when to declare a Credit Event and to deliver any notice that a Credit Event or a Floating Amount Event has occurred under a Synthetic Security. The Credit Default Swap Counterparty and its affiliates will have no liability to any holder of Securities or any other person as a result of giving (or not giving) any such notice. If a Writedown, Failure to Pay Principal or (solely with respect to a Credit Event under a CDO PAUG Credit Default Swap) Failure to Pay Interest occurs, the Synthetic Security Counterparty may elect to treat such event as a Floating Amount Event or to treat it as a Credit Event and physically settle under the credit default swap. See "—Certain Conflicts of Interest Involving the Initial Purchaser."

Each Synthetic Security Counterparty, including MLI, may deal in any Reference Obligation, may enter into other credit derivatives involving reference entities or reference obligations that may include the Reference Obligors or the Reference Obligations (including credit derivatives relating to Reference Obligations), may accept deposits from, make loans or otherwise extend credit to, and generally engage in any kind of commercial or investment banking or other business with, any issuer of a Reference Obligation, any affiliate of any issuer of a Reference Obligation or any other person or other entity having obligations relating to any issuer of a Reference Obligation, and may act with respect to such business in the same manner as if the Synthetic Securities did not exist, regardless of whether any such relationship or action might have an adverse effect on any Reference Obligation (including, without limitation, any action which might constitute or give rise to a Credit Event) or on the position of the Issuer, the Noteholders, or any other party to the transactions described herein or otherwise. In addition, each Synthetic Security Counterparty and/or its affiliates may from time to time possess interests in the issuers of Reference Obligations and/or Reference Obligations allowing the Synthetic Security Counterparty or its affiliates, as applicable (or any investment manager or adviser acting on its or their behalf), to exercise voting or consent rights with respect thereto, and such rights may be exercised in a manner that may be adverse to the interests of the holders of the Securities or that may affect the market value of Reference Obligations and/or the amounts payable thereunder. The Synthetic Security Counterparty and its affiliates may, whether by reason of the types of relationships described herein or otherwise, at the date hereof or any time hereafter, be in possession of information in relation to any

issuer of a Reference Obligation or Reference Obligation that is or may be material and that may or may not be publicly available or known to the Issuer, the Trustee or the holders of the Securities.

*Removal of the Collateral Manager.* Harding Advisory may be removed and replaced as the 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 Notes and Preferred Securities. The Collateral Manager may not be removed without cause. In any event, no removal of the Collateral Manager by the Issuer will become effective until a replacement manager has been appointed by the Issuer and the approval process described herein has been completed.

*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.

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

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

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

*Dependence on the Collateral Manager and Key Personnel.* The performance of the portfolio of Collateral Debt Securities depends heavily on the skills of the Collateral Manager in analyzing and

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

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

Relation to Prior Investment Results. The Issuer is a recently formed entity and has no prior investment results. Harding Advisory was formed in February 2006. This is the third CDO investing primarily in Asset-Backed Securities for which Harding Advisory will be the collateral manager. Harding Advisory also manages Lexington Capital Funding II, Ltd. and Jupiter High-Grade CDO IV Ltd. Harding Advisory also serves as a sub-advisor to Maxim for Jupiter High-Grade CDO Ltd., Jupiter High-Grade CDO II Ltd., Jupiter High-Grade CDO III Ltd. and Lexington Capital Funding, Ltd., other CDOs investing primarily in Asset-Backed Securities. However, this is the first CDO investing primarily in Synthetic Securities for which Harding Advisory will be the Collateral Manager. The prior investment results of the persons associated with the Collateral Manager or any other entity or person described herein are not indicative of the Issuer's future investment results. The nature of, and risks associated with, the Issuer's future investments may differ substantially from those investments and strategies undertaken historically by such persons and entities. There can be no assurance that the Issuer's investments will perform as well as the past investments of any such persons or entities.

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

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

None of the Issuer, the Co-Issuer, the Trustee, the Collateral Manager, the Placement Agent, the Initial Purchaser, the Credit Default Swap Counterparty, any Hedge Counterparty or any of their respective guarantors, any of their respective affiliates and any other person has any obligation to update or otherwise revise any projections, including any revisions to reflect changes in economic conditions or

other circumstances arising after the date hereof or to reflect the occurrence of unanticipated events, even if the underlying assumptions do not come to fruition.

In addition, a prospective investor may have received a prospective investor presentation or other similar materials from the Initial Purchaser or the Placement Agent. Such a presentation may have contained a summary of certain proposed terms of a hypothetical offering of securities as contemplated at the time of preparation of such presentation in connection with preliminary discussions with prospective investors in the Securities. However, as indicated therein, no such presentation was an offering of securities for sale, and any offering is being made only pursuant to this Offering Circular. Given the foregoing and the fact that information contained in any such presentation was preliminary in nature and has been superseded and may no longer be accurate, neither any such presentation nor any information contained therein may be relied upon in connection with a prospective investment in the Securities. In addition, the Initial Purchaser, the Placement Agent or the Issuer may make available to prospective investors certain information concerning the economic benefits and risks resulting from ownership of the Securities derived from modeling the cash flows expected to be received by, and the expected obligations of, the Issuer under various hypothetical assumptions provided to the Initial Purchaser, the Placement Agent or potential investors. Any such information may constitute projections that depend on the assumptions supplied and are otherwise limited in the manner indicated above.

*The Issuer.* The Issuer is a recently formed Cayman Islands entity and has no prior operating history other than in connection with the Acquisition of certain Collateral Debt Securities prior to the issuance of the Securities and the entering into of arrangements with respect thereto. The Issuer will have no significant assets other than the Collateral Debt Securities, Equity Securities, Eligible Investments and the Accounts and its rights under the Hedge Agreement and certain other agreements entered into as described herein, all of which have been pledged to the Trustee to secure the Issuer's obligations to the holders of the Notes (the "Noteholders"), each Hedge Counterparty, the Credit Default Swap Counterparty, the Collateral Manager and other Secured Parties. Income derived from the Collateral Debt Securities and other Collateral will be the Issuer's only source of cash.

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

#### **Risk Factors Relating to Interest Rate Risks and Hedge Agreements.**

*Interest Rate Risk.* The Notes bear interest at a rate based on LIBOR as determined on the relevant LIBOR Determination Date. The Collateral Debt Securities will include obligations that bear interest at the London interbank offered rate and other floating rates that are calculated or fixed on different dates or for shorter or longer periods than the LIBOR applicable to the Notes. The Notes will bear interest at three-month LIBOR (which resets quarterly) whereas a high percentage of the Cash Collateral Debt Securities are expected to bear interest based on the one-month London interbank offered rate (which resets monthly and is payable monthly) under the Credit Default Swaps the Fixed Amounts which MLI will pay to the Issuer are calculated based on a fixed rate and will not increase if LIBOR increases. The Collateral Debt Securities may include obligations that bear interest at fixed rates, or at initially fixed rates that after a period of time convert to floating rates. Accordingly, the Notes are subject to interest rate risk to the extent that there is an interest rate or basis mismatch between the floating rate at which interest accrues on the Notes and the floating or fixed rates at which interest (or Fixed Amounts) accrues on the Collateral Debt Securities. The relative movements of LIBOR and any floating rate applicable to the Collateral Debt Securities could adversely impact the Issuer's ability to make payments on the Notes or distributions on the Preferred Securities. In addition, any payments of principal of or

interest on Collateral Debt Securities received during a Due Period will be reinvested in Eligible Investments maturing not later than the Business Day immediately preceding the next Quarterly Distribution Date. There is no requirement that Eligible Investments bear interest at the London interbank offered rate, and the interest rates available for Eligible Investments are inherently uncertain. If the Total Return Swap is terminated (or the notional amount is reduced to less than the CDS Reserve Account Balance) the Issuer may be required to invest some or all of the funds in the CDS Reserve Account in Synthetic Security Collateral and other securities which do not bear interest at the London interbank offered rate. As a result of these mismatches, an increase in three-month LIBOR could adversely impact the ability of the Issuer to make payments on the Notes (including by reason of a decline in the value of previously issued fixed rate Collateral Debt Securities as LIBOR increases). The Initial Hedge Agreement which the Issuer expects to enter into on the Closing Date will not mitigate these interest rate risks because the Proceeds Swap will not hedge any interest rate risks to which the Issuer is exposed. Subsequent to the Closing Date the Issuer may enter into a basis swap pursuant to the Initial Hedge Agreement which would provide limited protection to the Issuer against the risk that three-month LIBOR increases more rapidly than the one-month London interbank offered rate. There can be no assurance that the Collateral Debt Securities and Eligible Investments, together with any Hedge Agreement which the Issuer may enter into, will in all circumstances generate sufficient Interest Proceeds to make timely payments of interest on the Notes. If the Issuer enters into a Hedge Agreement on or after the Closing Date, it will terminate prior to the Stated Maturity of the Notes, and the notional amount of such Hedge Agreement will be reduced on each Quarterly Distribution Date in accordance with a schedule attached to such Hedge Agreement. Moreover, the benefits of any such Hedge Agreement may not be achieved in the event of the early termination of the Hedge Agreement, including termination upon the failure of the Hedge Counterparty to perform its obligations thereunder. See "Security for the Notes—The Hedge Agreements."

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

Termination of Hedge Agreements Upon Redemption. Any Hedge Agreements will terminate upon an Optional Redemption, Tax Redemption, Auction Call Redemption or upon the occurrence of an Accelerated Maturity Date, which may require the Issuer to make a termination payment to the applicable Hedge Counterparty. Any such termination payment would reduce the proceeds available to be distributed on the Securities.

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

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

Up Front Payment. On the Closing Date, the Issuer will enter into the Initial Hedge Agreement with the Initial Hedge Counterparty pursuant to which, among other things, the Initial Hedge Counterparty will pay to the Issuer an Up Front Payment of approximately U.S.\$6,000,000 under the Proceeds Swap. As a result of the Proceeds Swap Installment to be paid to the Initial Hedge Counterparty under the Proceeds Swap by the Issuer on each Quarterly Distribution Date, the funds available to pay

interest on the Notes and distributions on the Preferred Securities will be less on each such Quarterly Distribution Date than if the Up Front Payment had not been made. However, the initial cash balance in the Uninvested Proceeds Account will be higher on the Closing Date than it would have been if an Up Front Payment had not been made. In addition, on any Redemption Date or the Accelerated Maturity Date, the Issuer will be obligated to pay the present value of the remaining Proceeds Swap Installments prior to paying any amounts in respect of the principal of the Notes or distributions to the Preferred Securities. The requirement to pay the present value of the remaining Proceeds Swap Installments may prevent a redemption of the Securities. The Issuer's obligations to the Initial Hedge Counterparty in respect of the Proceeds Swap Installment under the Proceeds Swap will be secured under the Indenture and will be senior in priority to the Issuer's obligations to pay interest and principal on the Notes and distributions on the Preferred Securities.

### **Risk Factors Relating to Tax.**

Taxes on 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 (except to the extent the Issuer is delivered certain Equity Securities or other securities on consideration received in exchange for Defaulted Securities which may not be Acquired under items 7, 8 or 9 of the Eligibility Criteria, until such time as the Issuer is required to dispose of such securities pursuant to the Indenture, or transfer such securities to a subsidiary of the Issuer), 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, the Collateral Management Agreement, the Issuer Charter and the Preferred Security Paying Agency Agreement. Prospective investors should be aware that an opinion of counsel is not binding on the U.S. Internal Revenue Service (the "IRS") or the courts, and that no ruling will be sought from the IRS regarding the U.S. Federal income tax treatment of the Issuer. Accordingly, there can be no assurance that the IRS or a court will agree with the opinion of Schulte Roth & Zabel LLP. See "Income Tax Considerations." There can be no assurance, however, that the Issuer's net income will not become subject to U.S. Federal income tax as the result of unanticipated activities by the Issuer, changes in law, conclusions by U.S. tax authorities or other causes.

The Issuer expects that payments received on the Collateral Debt Securities, Eligible Investments and the Hedge Agreements generally will not be subject to withholding taxes imposed by the United States or other countries from which such payments are sourced. Payments on the Collateral Debt Securities, Eligible Investments and the Hedge Agreements, however, might be or become subject to U.S. or other withholding tax due to a change in law or other causes. Payments with respect to any Equity Securities held by the Issuer likely will be subject to withholding taxes imposed by the United States or other countries from which such payments are sourced. The imposition of unanticipated withholding taxes or tax on the Issuer's net income could materially impair the Issuer's ability to pay principal of and interest on the Notes and make distributions on the Preferred Securities. 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 Preferred Securities, 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 Preferred Securities in respect of such withholding or deduction.

*Tax Treatment of Holders of the Securities.* In the event that the Class D Notes, the Class E Notes, the Class F Notes or the Class G Notes were to be treated like equity by the IRS or the courts, the following discussion pertaining to the holders of the Preferred Securities that do not make a timely qualified electing fund ("QEF") election will apply to U.S. holders of Class D Notes, Class E Notes, Class F Notes or Class G Notes. 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. holder (as defined in "Income Tax Considerations—In General") of Preferred Securities must generally choose either (1) to elect to treat the Issuer as a QEF as a result of which such holder 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 (as described below).

If a U.S. holder of Preferred Securities makes a QEF election, it is possible that such holder will pay taxes on "phantom income" (*i.e.*, such holder's *pro rata* share of the Issuer's taxable income that such holder must recognize currently and that is not matched by cash distributions received from the Issuer). A prospective U.S. holder of Preferred Securities should note that (i) any net losses of the Issuer in a taxable year (which may include losses arising from credit event payments made by the Issuer under any Synthetic Security, which may be substantial) will not be available to such holder, (ii) the Issuer's current year income subject to inclusion under the QEF rules is not reduced by prior years' net losses and (iii) any tax benefit from such net losses is effectively available only when a U.S. holder of Preferred Securities sells or disposes of its securities (*i.e.*, when such U.S. holder recognizes a capital loss, or reduced capital gain, on such securities).

A prospective purchaser of the Class B Preferred Securities should note that, based on the priority given to the Class A Preferred Securities in respect of distributions, the cash pertaining to income allocable to a U.S. holder of Class B Preferred Securities that makes a QEF election could instead be distributed to reduce the aggregate principal amount of the Class A Preferred Securities. This could result in such U.S. holder of Class B Preferred Securities paying taxes on material amounts of phantom income. In addition, proposed U.S. Treasury Regulations provide for certain rules applicable to QEF elections made with respect to preferred stock (for U.S. Federal income tax purposes) which, if such regulations were to apply, could modify the general treatment of a U.S. holder that makes a QEF election with respect to the Preferred Securities as described herein.

If a U.S. holder of Preferred Securities does not make a QEF election, such holder 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 holder's holding period or the prior three years) are generally treated as having accrued over the holder's entire holding period, are subject to the highest marginal rate of tax in effect in each prior year of accrual and are subject to an interest charge through the year in which the tax is actually paid.

The Issuer could also be a controlled foreign corporation ("CFC") depending on the percentage ownership by U.S. holders of its equity (for U.S. Federal income tax purposes). If the Issuer were a CFC, certain U.S. holders of securities 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 Preferred Securities. It is expected that the Issuer's taxable income would consist of subpart F income. Consequently, a U.S. Holder of Preferred Securities 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. Federal Tax Considerations—Tax Treatment of U.S. Holders of Preferred Securities."

The Issuer may invest in Collateral Debt Securities which may be treated (for U.S. tax purposes) as equity of other PFICs. In such event, a U.S. Holder of Preferred Securities must make a separate QEF election with respect to any such other PFIC and the Issuer will provide, to the extent it receives such information, the information needed for U.S. holders of Preferred Securities to make such a QEF election. Net losses associated with such investments are subject to material limitations. See "Income Tax Considerations."

*Tax Considerations Relating to the Credit Default Swaps and the Total Return Swaps.* 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 IRS and if applied to the credit default swaps could subject payments received by the Issuer under the credit default swaps to U.S. withholding or excise tax or subject the Issuer to excise tax or net income tax. The Issuer may not be entitled to a full gross-up on any 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 Preferred Securities.

The swap counterparty and the Issuer have agreed to treat the credit default swaps as a series of annually settled contingent put options issued to the swap counterparty by the Issuer. The Issuer will treat the total return swaps as notional principal contracts for U.S. Federal income tax purposes. However, because of the Issuer's and the applicable swap counterparty's rights under the credit default swaps and the total return swaps, it is possible that the IRS could recharacterize the credit default swaps and the total return swaps as other than the Issuer's treatment of the same, including treating the Issuer as purchasing a credit linked note issued by the applicable 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 Preferred Securities. Prospective U.S. holders of Preferred Securities should consult with their tax advisors as to the consequences of such possible recharacterization. See "Income Tax Considerations."

The imposition of withholding or other taxes on payments under the credit default swaps and the total return swaps could result in a Tax Event.

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

Neither the Issuer, the Placement Agent nor the Initial Purchaser makes any representation, warranty or other undertaking whatsoever that the Securities are not qualified as unit certificates in a foreign investment fund pursuant to Section 1(1) no. 2 of the InvStG. The Issuer will not comply with any calculation and information requirements set forth in Section 5 of the InvStG. Prospective German investors in the Securities are urged to seek independent tax advice and to consult their professional

advisors as to the legal and tax consequences that may arise from the application of the InvStG to the Securities, and neither the Issuer, the Placement Agent nor the Initial Purchaser accepts any responsibility in respect of the tax treatment of the Securities under German law.

### **Risk Factors Relating to Certain Regulations**

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

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

If any person or entity in the Cayman Islands involved in the business of the Issuer (including the Administrator) has a suspicion or belief that a payment to the Issuer (by way of subscription or otherwise) is derived from or represents the proceeds of criminal conduct, that person is obliged report such

suspicion to the Cayman Islands Reporting Authority pursuant to The Proceeds of Criminal Conduct Law (as amended) of the Cayman Islands.

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

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

Each transferee of a beneficial interest in a Restricted Global Note will be deemed to represent at the time of purchase that: (i) the purchaser is both (A) a Qualified Institutional Buyer and (B) 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.

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

Certain Legal Investment Considerations. None of the Issuer, the Co-Issuer, the Collateral Manager, the Placement Agent, or the Initial Purchaser makes any representation as to the proper characterization of the Securities for legal investment or other purposes, as to the ability of particular investors to purchase Securities for legal investment or other purposes or as to the ability of particular investors to purchase Securities under applicable investment restrictions. All institutions the activities of which are subject to legal investment laws and regulations, regulatory capital requirements or review by regulatory authorities should consult their own legal advisors in determining whether and to what extent

the Securities are subject to investment, capital or other restrictions. Without limiting the generality of the foregoing, none of the Issuer, the Co-Issuer, the Collateral Manager, the Placement Agent and the Initial Purchaser makes any representation as to the characterization of the Securities as a U.S.-domestic or foreign (non-U.S.) investment under any state insurance code or related regulations, and they are not aware of any published precedent that addresses such characterization. Although they are not making any such representation, the Co-Issuers understand that the New York State Insurance Department, in response to a request for guidance, has been considering the characterization (as U.S.-domestic or foreign (non-U.S.)) of certain collateralized debt obligation securities co-issued by a non-U.S. issuer and a U.S. co-issuer. There can be no assurance as to the nature of any advice or other action that may result from such consideration. The uncertainties described above (and any unfavorable future determinations concerning legal investment or financial institution regulatory characteristics of the Securities) may affect the liquidity of the Securities.

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

### **Risk Factors Relating to Listing.**

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

## 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 600 Travis Street, 50th Floor, JPMorgan Chase Tower, Houston, Texas 77002, Attention: Worldwide Securities Services — Octans I CDO Ltd.*

### Status and Security

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

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

Payments on the Notes will be subordinate to the Issuer's payment and other obligations (i) to MLI under the Credit Default Swaps, the Total Return Swap and the Class A-1 Swap, (ii) to each Hedge Counterparty under any Hedge Agreement, and (iii) to pay fees, expenses and indemnities to the Trustee, the Collateral Manager and others in accordance with the Priority of Payments.

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

### Drawdown

#### Funded Notes and Preferred Securities

All of the Funded Notes and Preferred Securities will be issued on the Closing Date. The entire principal amount of the Funded Notes will be advanced on the Closing Date.

### Class A-1 Notes and the Class A-1 Swap

On the Closing Date, the Issuer will enter into a swap agreement (the "Class A-1 Swap") with Merrill Lynch International (in such capacity, the "Class A-1 Swap Counterparty") in the form of a confirmation made pursuant to the ISDA Master Agreement. Pursuant to the Class A-1 Swap, the Collateral Manager, on behalf of the Co-Issuers, may request that the Class A-1 Swap Counterparty, on and subject to the terms and conditions specified below and in the Class A-1 Swap, purchase Class A-1 Notes from the Co-Issuers in exchange for the payment to the Issuer of the principal amount of the Class A-1 Notes so issued (each such purchase, a "Class A-1 Funding"). The Co-Issuers will be obligated to issue the Class A-1 Notes to the Class A-1 Swap Counterparty or its designees in order to obtain payment of the Class A-1 Funding. The aggregate principal amount of Class A-1 Notes that may be issued will not exceed U.S.\$975,000,000. Each request for a Class A-1 Funding (a "Class A-1 Funding Request") will be delivered by either the Collateral Manager (on behalf of the Issuer) or the Trustee to the Class A-1 Swap Counterparty no less than three Business Days prior to the requested funding date (the "Class A-1 Funding Date"). The Class A-1 Swap Counterparty may designate another person to purchase Class A-1 Notes on a Class A-1 Funding Date in satisfaction of its obligations under the Class A-1 Swap.

The obligations of the Class A-1 Swap Counterparty will terminate on the Swap Period Termination Date, or on any earlier date on which an Early Termination Date occurs under the ISDA Master Agreement. The Issuer may not request a Class A-1 Funding if funds available in the Accounts pursuant to the Account Payment Priority are sufficient to make a payment to fund a Permitted Use, and the proceeds of a Class A-1 Funding under the Class A-1 Swap may only be used by the Issuer to pay:

- (a) Swap Termination Payments to the Credit Default Swap Counterparty,
- (b) Floating Amounts and Physical Settlement Amounts in respect of Unhedged Long Credit Default Swaps to the Credit Default Swap Counterparty and
- (c) any Net Issuer Hedged Long Fixed Amounts payable by the Issuer in respect of Hedged Long Credit Default Swaps to the Credit Default Swap Counterparty,

(the uses described in clauses (a) through (c) above, each, a "Permitted Use").

Unless the Class A-1 Swap Counterparty has deposited the Class A-1 Swap Prefunding Amount into the Class A-1 Swap Prefunding Account, no request for a Class A-1 Funding Amount may be made for an amount less than the lesser of (x) U.S.\$1,000,000 or (y) the Aggregate Undrawn Amount (or such lesser amount as may be agreed to by Class A-1 Swap Counterparty and the Issuer (the "Minimum Funding Amount"). Any excess of such minimum amount over the amount (or portion thereof) of the applicable Permitted Use funded from Class A-1 Fundings pursuant to the Account Payment Priority will be deposited into the CDS Reserve Account.

The obligation of the Credit Default Swap Counterparty to make a Class A-1 Funding under the Class A-1 Swap, and the application of funds standing to the credit of a Class A-1 Swap Prefunding Account to any Class A-1 Funding, is subject to the following requirements: (1) all funds and securities available pursuant to the Account Payment Priority have been applied to fund such Permitted Use, (2) subject to the Minimum Funding Amount, the proceeds of such Class A-1 Funding will be applied to a Permitted Use, (3) the Aggregate Undrawn Amount is equal to or greater than the amount of such Class A-1 Funding, (4) the Issuer issues Class A-1 Notes to the Class A-1 Swap Counterparty or its designee with an aggregate principal amount equal to the Class A-1 Funding and (5) no Event of Default described in clause (vi) of the definition thereof has occurred. The Issuer will be required to liquidate any securities

or Eligible Investments in an Account from which payments are to be made in accordance with the Account Payment Priority before it may request a Class A-1 Funding.

If the Issuer pays any portion of the Outstanding Class A-1 Funded Amount during the Reinvestment Period using funds withdrawn from the CDS Reserve Account, the Aggregate Undrawn Amount will increase by the amount of such payment and the Issuer may thereafter reborrow such amounts.

If on any Quarterly Distribution Date an amount would otherwise be payable by the Class A-1 Swap Counterparty to the Issuer to purchase Class A-1 Notes, and by the Issuer to the Class A-1 Swap Counterparty to redeem Class A-1 Notes held by the Class A-1 Swap Counterparty, then, on such date, each party's obligation to make payment of any such amount will be automatically satisfied and discharged and, if the amount that would otherwise have been payable by one party exceeds the amount that would otherwise have been payable by the other party, replaced by an obligation upon the party by whom the larger amount would have been payable to pay to the other party the excess of the larger amount over the smaller amount.

If MLI is obligated to make a payment to the Issuer under the Class A-1 Swap (and all conditions under the Class A-1 Swap have been satisfied by the Issuer or waived by MLI) which will be applied by the Issuer to make a payment to MLI under a Credit Default Swap in the same amount, the obligation of MLI to make the payment under the Class A-1 Swap and the obligation of the Issuer to make the payment under the Credit Default Swap will be automatically satisfied and discharged pursuant to the netting provisions of the ISDA Master Agreement and the Class A-1 Swap, *provided* that the Issuer delivers Class A-1 Notes with a principal amount equal to the Class A-1 Funding to MLI.

Prior to the Swap Period Termination Date the Class A-1 Swap Counterparty will be required to satisfy the Class A-1 Rating Criteria if there is any Aggregate Undrawn Amount. If the Class A-1 Swap Counterparty fails at any time prior to the Swap Period Termination Date to comply with the Class A-1 Rating Criteria, the Issuer will have the right (under the Class A-1 Swap Agreement) to either (i) replace the Class A-1 Swap Counterparty with another entity that meets such Class A-1 Rating Criteria (by requiring the Class A-1 Swap Counterparty to transfer all of its rights and obligations in respect of the Class A-1 Swap to such other entity) or (ii) require the Class A-1 Swap Counterparty to cause a Class A-1 Swap Prefunding Account to be established, credit to such cash or Class A-1 Swap Prefunding Account Eligible Investments, the aggregate outstanding principal amount of which is equal to the Class A-1 Swap Prefunding Amount at such time and enter into a Class A-1 Swap Prefunding Account Control Agreement in relation to such account.

In the event that the Class A-1 Swap Counterparty prefunds the Class A-1 Swap Prefunding Amount because of a failure to satisfy the Class A-1 Rating Criteria, it will (i) be entitled to a Class A-1 Swap Availability Fee in respect of such prefunded balance until it is applied to a Class A-1 Funding and (ii) receive interest on such prefunded amount in an amount equal to the interest income received by the Trustee on the Eligible Investments in the Class A-1 Swap Prefunding subaccount of the Uninvested Proceeds Account during the corresponding period as described under "Security for the Notes—The Accounts—Uninvested Proceeds Account."

The Class A-1 Swap Agreement will be subject to early termination upon the events described in the ISDA Master Agreement. See "Security for the Notes—The ISDA Master Agreement."

## Reduction of the Aggregate Undrawn Amount

On the Closing Date, the Aggregate Undrawn Amount under the Class A-1 Swap is expected to be U.S.\$975,000,000. The obligation of the Class A-1 Swap Counterparty to make Class A-1 Fundings to the Issuer will be reduced permanently in the following circumstances (any such reduction, a "Permanent Reduction Amount"):

(i) if a Ratings Confirmation Failure occurs, the Aggregate Undrawn Amount will be reduced on each Quarterly Distribution Date thereafter by the Interest Proceeds and Principal Proceeds and CDS Reserve Account Excess Withdrawal Amount applied in accordance with the Priority of Payments to pay the Outstanding Class A-1 Funded Amount or to make a deposit to the CDS Reserve Account to reduce the Aggregate Undrawn Amount and the CDS Principal Proceeds applied in accordance with the CDS Application Priority to reduce the Aggregate Undrawn Amount, to the extent necessary to obtain a Rating Confirmation;

(ii) on each Quarterly Distribution Date during the Reinvestment Period, the Aggregate Undrawn Amount will be reduced by (a) all Specified Principal Proceeds and CDS Reserve Account Excess Withdrawal Amounts applied in accordance with the Priority of Payments to pay the Outstanding Class A-1 Funded Amount or to make a deposit to the CDS Reserve Account to reduce the Aggregate Undrawn Amount and (b) all Specified CDS Principal Proceeds applied in accordance with the CDS Application Priority to reduce the Aggregate Undrawn Amount;

(iii) on each Quarterly Distribution Date that occurs on or after the last day of the Reinvestment Period, the Aggregate Undrawn Amount will be reduced by the CDS Principal Proceeds applied in accordance with the CDS Application Priority and all Principal Proceeds and CDS Reserve Account Excess Withdrawal Amounts applied to pay the Outstanding Class A-1 Funded Amount or to make a deposit to the CDS Reserve Account to reduce the Aggregate Undrawn Amount; and

(iv) on the Quarterly Distribution Date on which the Reinvestment Period ends and on any Quarterly Distribution Date after the Reinvestment Period, the Aggregate Undrawn Amount will be reduced by such additional amount (if any) specified by the Collateral Manager in a notice to the Trustee, the Class A-1 Swap Counterparty, the Credit Default Swap Counterparty and the Total Return Swap Counterparty as will not cause (or increase) a Notional Amount Shortfall in excess of zero (taking into account the reductions provided for in clauses (i) through (iii) above, any withdrawal from the CDS Reserve Account on or prior to such Quarterly Distribution Date).

During the Reinvestment Period, the Issuer does not expect to reduce the Aggregate Undrawn Amount unless a Rating Confirmation Failure occurs. However, the Collateral Manager has discretion to direct the Trustee to treat any Principal Proceeds as Specified Principal Proceeds and to treat any CDS Principal Proceeds as Specified CDS Principal Proceeds, which will be applied (in part or in whole) to reduce permanently the Aggregate Undrawn Amount during the Reinvestment Period. Moreover, if the Collateral Manager does not reinvest Principal Proceeds or CDS Principal Proceeds by the Determination Date for the second Distribution Date following the Due Period during which (x) in the case of Principal Proceeds, such Principal Proceeds were received or (y) in the case of CDS Principal Proceeds, the CDS Principal Receipt Date occurred, they must be applied as Specified Principal Proceeds or Specified CDS Principal Proceeds on such Quarterly Distribution Date.

If the Collateral Manager elects to direct the Trustee to deposit Principal Proceeds into the CDS Reserve Account, the Aggregate Undrawn Amount will not be reduced by such deposit. If the Collateral



Manager elects to apply funds in the CDS Reserve Account to pay the Outstanding Class A-1 Funded Amount during the Reinvestment Period, it will not constitute a Permanent Reduction Amount.

## Interest

The Class A-1 Notes will bear interest at a floating rate *per annum* equal to three-month LIBOR (determined as described herein) *plus* 0.30%. The Class A-2A Notes will bear interest at a floating rate *per annum* equal to three-month LIBOR (determined as described herein) *plus* 0.40%. The Class A-2B Notes will bear interest at a floating rate *per annum* equal to three-month LIBOR *plus* 0.48%. The Class B Notes will bear interest at a floating rate *per annum* equal to three-month LIBOR *plus* 0.51%. The Class C Notes will bear interest at a floating rate *per annum* equal to three-month LIBOR *plus* 0.61%. The Class D Notes will bear interest at a floating rate *per annum* equal to three-month LIBOR *plus* 1.45% (the "Class D Rate"). The Class E Notes will bear interest at a floating rate *per annum* equal to three-month LIBOR *plus* 1.65% (the "Class E Rate"). The Class F Notes will bear interest at a floating rate *per annum* equal to three-month LIBOR *plus* 3.15% (the "Class F Rate"). The Class G Notes will bear interest at a floating rate *per annum* equal to three-month LIBOR *plus* 3.85% (the "Class G Rate"). Interest on the Notes will be computed on the basis of a 360-day year and the actual number of days elapsed. LIBOR for the first Interest Period for all Notes will be interpolated LIBOR for the period from the Closing Date to the first Quarterly Distribution Date.

With respect to the Class A-1 Notes, interest will accrue on the amount of each Class A-1 Funding during the period from, and including the Class A-1 Funding Date to, but excluding, the next succeeding Quarterly Distribution Date and thereafter, the period from and including the Quarterly Distribution Date immediately following the last day of the immediately preceding Interest Period to, but excluding, the next succeeding Quarterly Distribution Date. With respect to each other Class of Notes, interest will accrue on the Aggregate Outstanding Amount of each such 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) the period from, and including, the Closing Date to, but excluding, the first Quarterly Distribution Date and (ii) thereafter, the period from, and including, the Quarterly Distribution Date immediately following the last day of the immediately preceding Interest Period to, but excluding, the next succeeding Quarterly Distribution Date, until such Notes are paid in full. Such period of accrual of interest on the Notes is referred to herein as an "Interest Period."

Payments of interest on the Notes and distributions, if any, on the Preferred Securities will be payable in U.S. dollars quarterly in arrears only on the 10th day of each January, April, July and October of each year (each a "Quarterly Distribution Date"), commencing in January 2007; *provided* that (i) the final Quarterly Distribution Date with respect to the Notes will be the Quarterly Distribution Date in October 2041, (ii) if a Quarterly Distribution Date would otherwise fall on a day that is not a Business Day, the relevant Quarterly Distribution Date will be the first following day that is a Business Day and (iii) the Accelerated Maturity Date shall be a Quarterly Distribution Date. The "Due Period" relating to any Quarterly Distribution Date shall be the Due Period that immediately precedes such Quarterly Distribution Date.

So long as any Class A Notes, Class B Notes or Class C Notes are outstanding (or the Swap Period Termination Date has not occurred), any interest due on the Class D Notes which is not paid as a result of the operation of the Priority of Payments on any Quarterly Distribution Date (any such interest *plus* interest thereon at the Class D Rate, "Class D Unpaid Interest Amount") shall not be considered "due and payable" (and accordingly, the failure to pay such amounts shall not be an Event of Default unless the Class D Notes are the most Senior Class of Notes outstanding) until the earlier of the Quarterly Distribution Date on which funds are available to pay such Class D Unpaid Interest Amount in

accordance with the Priority of Payments and the Stated Maturity. The Class D Unpaid Interest Amount shall bear interest at the Class D Rate.

So long as any Class A Notes, Class B Notes, Class C Notes or Class D Notes are outstanding (or the Swap Period Termination Date has not occurred), any interest due on the Class E Notes which is not paid as a result of the operation of the Priority of Payments on any Quarterly Distribution Date (any such interest *plus* interest thereon at the Class E Rate, the "Class E Unpaid Interest Amount") shall not be considered "due and payable" (and accordingly, the failure to pay such amounts shall not be an Event of Default unless the Class E Notes are the most Senior Class of Notes outstanding) until the earlier of the Quarterly Distribution Date on which funds are available to pay such Class E Unpaid Interest Amount in accordance with the Priority of Payments and the Stated Maturity. The Class E Unpaid Interest Amount accrued to any Quarterly Distribution Date shall bear interest at the Class E Rate.

So long as any Class A Notes, Class B Notes, Class C Notes, Class D Notes or Class E Notes are outstanding (or the Swap Period Termination Date has not occurred), any interest due on the Class F Notes which is not paid as a result of the operation of the Priority of Payments on any Quarterly Distribution Date (any such interest *plus* interest thereon at the Class F Rate, the "Class F Unpaid Interest Amount") shall not be considered "due and payable" (and accordingly, the failure to pay such amounts shall not be an Event of Default unless the Class F Notes are the most Senior Class of Notes outstanding) until the earlier of the Quarterly Distribution Date on which funds are available to pay such Class F Unpaid Interest Amount in accordance with the Priority of Payments and the Stated Maturity. The Class F Unpaid Interest Amount accrued to any Quarterly Distribution Date shall bear interest at the Class F Rate.

So long as any Class A Notes, Class B Notes, Class C Notes, Class D Notes, Class E Notes or Class F Notes are outstanding (or the Swap Period Termination Date has not occurred), any interest due on the Class G Notes which is not paid as a result of the operation of the Priority of Payments on any Quarterly Distribution Date (any such interest *plus* interest thereon at the Class G Rate, "Class G Unpaid Interest Amount") shall not be considered "due and payable" until the earlier of the Quarterly Distribution Date on which funds are available to pay such Class G Unpaid Interest Amount in accordance with the Priority of Payments and the Stated Maturity. Class G Unpaid Interest Amount shall bear interest at the Class G Rate.

Interest will cease to accrue on each Note or, in the case of a partial repayment, on such part, from the date of repayment or Stated Maturity unless payment of principal is improperly withheld or unless default is otherwise made with respect to such payments. To the extent lawful and enforceable, interest on any Defaulted Interest on any Note will accrue at the interest rate applicable to such Note until paid in full. "Defaulted Interest" means any interest due and payable in respect of any Note, and solely with respect to the Class A-1 Notes, Class A-1 Swap Availability Fee, which is not punctually paid or duly provided for on the applicable Quarterly Distribution Date or at Stated Maturity and which remains unpaid. So long as any Class A Notes, Class B Notes or Class C Notes are outstanding, the Class D Unpaid Interest Amount shall not constitute Defaulted Interest. So long as any Class A Notes, Class B Notes, Class C Notes or Class D Notes are outstanding, the Class E Unpaid Interest Amount shall not constitute Defaulted Interest. So long as any Class A Notes, Class B Notes, Class C Notes, Class D Notes or Class E Notes are outstanding, the Class F Unpaid Interest Amount shall not constitute Defaulted Interest. So long as any Class A Notes, Class B Notes, Class C Notes, Class D Notes, Class E Notes or Class F Notes are outstanding, the Class G Unpaid Interest Amount shall not constitute Defaulted Interest.

As soon as possible after 11:00 a.m. (London time) on each LIBOR Determination Date, but in no event later than 11:00 a.m. (New York time) the Business Day immediately following each LIBOR Determination Date, the Calculation Agent will notify the Co-Issuers, the Collateral Manager, the

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

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

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

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

### **Class A-1 Swap Availability Fee**

The Class A-1 Swap Availability Fee will be payable to the Class A-1 Swap Counterparty and will accrue on the Aggregate Undrawn Amount under the Class A-1 Swap for each day from and including the Closing Date to but excluding the Swap Period Termination Date, and will be payable on each Quarterly Distribution Date quarterly in arrears at a rate *per annum* equal to 0.18%. The Class A-1 Swap Availability Fee will continue to accrue on any amounts in a Class A-1 Swap Prefunding Account until they are applied to the funding of a Permitted Use. The Class A-1 Swap Availability Fee will rank *pari passu* with the payment of interest on the Class A-1 Notes. The Class A-1 Swap Availability Fee will be computed on the basis of a 360-day year and the actual number of days elapsed.

### **Principal**

The Stated Maturity of the Notes is the Quarterly Distribution Date in October 2041. Each Class of Notes is scheduled to mature at the Stated Maturity unless redeemed or repaid prior thereto. However, the Notes may be paid in full prior to their Stated Maturity. See "Risk Factors—Average Life of the Notes and Prepayment Considerations" and "Maturity, Prepayment and Yield Considerations." Any payment of principal with respect to any Class of Notes (including any payment of principal made in

connection with an Optional Redemption, Auction Call Redemption or Tax Redemption) will be made by the Trustee on a *pro rata* basis among the Notes of such Class according to the respective unpaid principal amounts thereof outstanding immediately prior to such payment and in accordance with the Priority of Payments. The Trustee will, so long as any Class of Notes is listed on the Irish Stock Exchange, notify the Irish Paying Agent not later than each Quarterly Distribution Date of the amount of principal payments to be made on the Notes of each such Class on such Quarterly Distribution Date, the amount of any Class D Unpaid Interest Amount, the amount of any Class E Unpaid Interest Amount, the amount of any Class F Unpaid Interest Amount, the amount of any Class G Unpaid Interest Amount, the aggregate outstanding principal amount of the Notes of each such Class and the percentage of the original aggregate outstanding principal amount of the Notes of such Class after giving effect to the principal payments, if any, on such Quarterly Distribution Date.

On any Quarterly Distribution Date that occurs during a Sequential Pay Period, Distributable Principal Proceeds will be applied to pay principal of the Notes (or to make a deposit to the CDS Reserve Account to reduce the Aggregate Undrawn Amount) in direct order of seniority, in accordance with the Sequential Payment Priority. On a Quarterly Distribution Date during a Sequential Pay Period, the CDS Reserve Account Excess Withdrawal Amount also may be applied to pay the principal amount of the Notes, in accordance with the Sequential Payment Priority.

On any Quarterly Distribution Date which occurs after the Closing Date and prior to the commencement of the Sequential Pay Period (a "Pro Rata Pay Period"), Distributable Principal Proceeds and the CDS Reserve Account Excess Withdrawal Amount will be applied, *first*, to pay the Class A-1 Principal Payment and, *second*, to pay the Junior Note Reduction Amount which will be applied to pay principal of all Classes of the Notes *pro rata* in accordance with the Pro Rata Payment Priority; *provided* that an amount up to the Class A-2 Pro Rata Principal Payment Cap will be applied to pay principal first, to the Class A-2A Notes until the Class A-2A Notes have been paid in full, and then to the Class A-2B Notes; *provided further* that the portion of the Junior Note Reduction Amount available to make payments on a Class D Note, Class E Note, Class F Note or Class G Note on a Quarterly Distribution Date will be applied first to pay any Interest Distribution Amount and Unpaid Interest Amount (and any Defaulted Interest and accrued interest thereon) on such Class of Notes not paid from Interest Proceeds before any principal of such Class of Notes (or any subordinate Classes of Notes to such Class of Notes) is paid. Any application of the Junior Note Reduction Amount to pay interest on a Class of Notes will reduce (possibly to zero) the portion of the Junior Note Reduction Amount available to pay principal (and interest) on any subordinate Classes of Notes to such Class of Notes.

The Sequential Pay Period will commence on the earliest to occur of (i) the first Determination Date on which an Event of Default has occurred and is continuing, (ii) the first Determination Date on which the Class A Sequential Pay Test is not satisfied, (iii) the first date on which the Net Outstanding Portfolio Collateral Balance has fallen below 50% of the Net Outstanding Portfolio Collateral Balance on the Ramp-Up Completion Date and (iv) the first date on which the rating of any outstanding Class of Notes by Standard & Poor's or Moody's (and in the case of Moody's, the Holders of at least a majority in Aggregate Outstanding Amount of the Controlling Class consents) has been reduced or withdrawn. For the avoidance of doubt, if a Sequential Pay Period commences a Pro Rata Pay Period may not commence on any future Quarterly Distribution Date.

#### **CDS Proceeds**

On any Quarterly Distribution Date (A) Specified CDS Principal Proceeds will be applied prior to the end of the Reinvestment Period, to reduce permanently the Aggregate Undrawn Amount under the Class A-1 Swap by either the amount of the Specified CDS Principal Proceeds for the Due Period (in a Sequential Pay Period) or the Class A-1 Reduction Amount (during a Pro Rata Pay Period) and (B) CDS

Principal Proceeds will be applied on and after the end of the Reinvestment Period, to reduce permanently the Aggregate Undrawn Amount under the Class A-1 Swap by either the amount of the CDS Principal Proceeds for the Due Period (in a Sequential Pay Period) or the Class A-1 Reduction Amount (during a Pro Rata Pay Period), in each case in accordance with the CDS Application Priority. See "Priority Payments—CDS Application Priority."

### **Reinvestment Period**

During the Reinvestment Period, Principal Proceeds (including those resulting from Dispositions, maturities or redemptions of Collateral Debt Securities) may be reinvested in Collateral Debt Securities if the criteria set forth under "—Eligibility Criteria" are satisfied or, if applicable, the extent of compliance is maintained or improved. See "—Eligibility Criteria" and "—Disposition of Collateral Debt Securities." The Issuer may apply Principal Proceeds to acquire substitute Cash Collateral Debt Securities by no later than the Determination Date for the second Quarterly Distribution Date following the Due Period in which the Issuer received such Principal Proceeds). During the Reinvestment Period the Collateral Manager may, in its discretion, elect to transfer any CDS Reserve Account Excess Withdrawal Amount to the Principal Collection Account in order to invest such funds in Defeased Synthetic Securities and Cash Collateral Debt Securities on or prior to the Determination Date for the second Quarterly Distribution Date after the CDS Principal Receipt Date on which the CDS Reserve Account Excess occurred.

In addition, (A) during the Reinvestment Period, the Collateral Manager (on behalf of the Issuer) may apply CDS Principal Proceeds to Acquire one or more replacement Credit Default Swaps so long as the criteria set forth under "—Eligibility Criteria" are satisfied and (B) the Collateral Manager also may elect to deposit Principal Proceeds in the CDS Reserve Account so that the Issuer may enter into additional Credit Default Swaps in compliance with the Eligibility Criteria. The Issuer may apply CDS Principal Proceeds or Principal Proceeds, as applicable, to acquire substitute Credit Default Swaps by no later than the Determination Date for the second Quarterly Distribution Date following the Due Period during which (x) in the case of Principal Proceeds, such Principal Proceeds were received or (y) in the case of CDS Principal Proceeds, the CDS Principal Receipt Date occurred.

During the Reinvestment Period, the Issuer is not expected to make any principal payments on the Notes from Principal Proceeds (other than proceeds of Defaulted Securities) unless the Collateral Manager does not find sufficient reinvestment opportunities or elects to make such principal payments. After the Reinvestment Period, all Principal Proceeds will be applied in accordance with the Priority of Payments to repay the principal amount of the Notes or to make a deposit to the CDS Reserve Account to permanently reduce the Aggregate Undrawn Amount (after payment of certain fees and expenses and interest on the Notes to the extent not paid from Interest Proceeds).

### **Mandatory Redemption**

If the Issuer is required to request a Rating Confirmation but is unable to obtain a Rating Confirmation from each Rating Agency prior to the first Determination Date that is at least 30 Business Days following receipt by such Rating Agency of such Ramp-Up Notice or a Proposed Plan has not been approved by the Rating Agencies (which does not provide for redemption of the Notes), on the first Quarterly Distribution Date following such Rating Confirmation Failure, the Issuer will be required to apply Uninvested Proceeds (which are not required to complete purchases of Collateral Debt Securities) to pay, in part, the principal amount of the Notes or permanently reduce the Aggregate Undrawn Amount in direct order of seniority. To the extent that such Uninvested Proceeds are insufficient to redeem the Notes in order to obtain a Rating Confirmation, on such Quarterly Distribution Date and on each Quarterly Distribution Date thereafter, Interest Proceeds and, to the extent that Interest Proceeds are insufficient to redeem the Notes in order to obtain a Rating Confirmation, Principal Proceeds, will be

applied in accordance with the Priority of Payments, to the payment of principal of the Notes and to reduce permanently the Aggregate Undrawn Amount under the Class A-1 Swap in accordance with the Sequential Payment Priority, to the extent specified by each relevant Rating Agency to obtain a Rating Confirmation or to the extent specified in a Proposed Plan which satisfies the Rating Condition. See "Security for the Notes—Ramp-Up Period."

Pursuant to a Class F/G Special Redemption, on each Quarterly Distribution Date from and including the Quarterly Distribution Date in January 2007, 15% of any Interest Proceeds that may otherwise have been available to be released from the lien of the Indenture and paid to the Preferred Security Paying Agent (or paid as part of the Subordinated Management Fee) will be applied to pay *pro rata* the principal of the Class F Notes and the Class G Notes. See "Description of the Notes—Priority of Payments—Interest Proceeds."

### **Auction Call Redemption**

In accordance with the procedures set forth in the Indenture (the "Auction Procedures"), the Trustee (in consultation with the Collateral Manager) shall, at the expense of the Issuer, conduct an auction (an "Auction") of the Collateral Debt Securities if, prior to the Quarterly Distribution Date occurring in October 2013, the Notes have not been redeemed in full. The Auction shall be conducted not later than (1) ten Business Days prior to the Quarterly Distribution Date occurring in October 2013 and (2) if the Notes are not redeemed in full on the prior Quarterly Distribution Date, ten Business Days prior to each Quarterly Distribution Date thereafter until the Notes have been redeemed in full (each such date, an "Auction Date"). Any of the Holders of Preferred Securities, the Collateral Manager, the Trustee or their respective affiliates may, but shall not be required to, bid at the Auction. The Collateral Manager, on behalf of the Issuer, shall sell and transfer all of the Collateral Debt Securities (which may be divided into up to eight subpools) to the highest bidder therefor (or the highest bidder for each subpool) at the Auction; *provided that*:

- (i) the Auction has been conducted in accordance with the Auction Procedures;
- (ii) with respect to Collateral Debt Securities other than Synthetic Securities:
  - (A) the Trustee has received bids for such Collateral Debt Securities from at least two qualified bidders identified by the Collateral Manager (including the winning qualified bidder) for (x) the purchase of all of such Collateral Debt Securities as a single pool or (y) the purchase of subpools that in the aggregate constitute all of such Collateral Debt Securities; and
  - (B) the bidder(s) who offered the highest auction price for such Collateral Debt Securities (or the related subpools) enter(s) into a written agreement with the Issuer (which the Issuer shall execute if the conditions set forth in clauses (i) and (ii)(A) above and clauses (iii) and (iv) below are satisfied, which execution shall constitute certification by the Issuer that such conditions have been satisfied) that obligates the highest bidder (or the highest bidder for each subpool) to purchase all of such Collateral Debt Securities (or the relevant subpool) with the closing of such purchase (and full payment in cash to the Trustee) to occur on or before the sixth Business Day prior to the relevant Quarterly Distribution Date;
- (iii) with respect to each Synthetic Security, the Collateral Manager on behalf of the Issuer, will request that the Synthetic Security Counterparty (or the Calculation Agent) under such Synthetic Security determine, in accordance with the procedure set forth in the

Synthetic Security, the net termination or assignment payment payable by or to the Issuer assuming a termination or assignment date for the relevant Synthetic Security six Business Days prior to the relevant Quarterly Distribution Date and the Collateral Manager, shall determine the amount (if any) that will be released from the related Synthetic Security Counterparty Account based on the information it receives with respect to the net termination or assignment payment; and

- (iv) the Collateral Manager has determined that (I) the aggregate purchase price (paid in cash) that would be received pursuant to the highest bids obtained with respect to the Collateral Debt Securities (other than Synthetic Securities) pursuant to clause (ii) above *plus* (II) the aggregate net termination or assignment payments that would be payable to the Issuer by Synthetic Security Counterparties as determined pursuant to clause (iii) above *minus* (III) the aggregate net termination or assignment payments that would be payable under each Defeased Synthetic Security by the Issuer to the Synthetic Security Counterparty as determined pursuant to clause (iii) above from funds other than a Synthetic Security Counterparty Account, *plus* (IV) the balance of all Eligible Investments and Cash in the Accounts (other than in any Hedge Counterparty Collateral Account, any Synthetic Security Counterparty Account, any Synthetic Security Issuer Account and any Class A-1 Swap Prefunding Account) and the proceeds of termination of any Hedge Agreement, *plus* (V) the aggregate amount (if any) that will be released from the Synthetic Security Counterparty Accounts following payment of the net termination or assignment payments described in the foregoing clauses (II) and (III), would be at least equal to the Total Senior Redemption Amount.

If the conditions set forth in clauses (i), (ii), (iii) and (iv) above have been satisfied, (x) the Trustee shall sell and transfer the Pledged Collateral Debt Securities that are not Synthetic Securities (or the related subpool), without representation, warranty or recourse, to such highest bidder (or the highest bidder for each subpool, as the case may be) and (y) the Issuer will terminate or assign the transactions under each Synthetic Security, in each case, (A) in accordance with and upon completion of the Auction Procedures and (B) on or before the sixth Business Day prior to the relevant Quarterly Distribution Date. The Trustee shall deposit the net proceeds from the sale of, and the net termination or assignment payments received in respect of, the Collateral Debt Securities, together with any Synthetic Security Collateral released from the Synthetic Security Counterparty Account, in the Collection Accounts (and pay net termination payments, if any, due to counterparties) and (x) redeem the Notes in whole but not in part at the applicable Redemption Price (exclusive of installments of principal and interest and due on or prior to such date, provided payment of which shall have been made or duly provided for, to the holders of the Notes as provided in the Indenture), (y) pay the remaining portion of the Total Senior Redemption Amount in accordance with the Priority of Payments and (z) make a payment to the Preferred Security Paying Agent for distribution to the Holders of Preferred Securities subject to the provisions of The Companies Law (2004 Revision) of the Cayman Islands governing the declaration and payment of dividends, in an amount equal to any portion of such purchase price remaining after the application contemplated by the foregoing clauses (x) and (y) (but at least equal to the Preferred Security Redemption Date Amount or such lesser amount as is agreed by Holders of Preferred Securities whose aggregate Voting Percentages at such time equal a Special Majority-in-Interest of Holders of Preferred Securities), in each case on the Quarterly Distribution Date immediately following the relevant Auction Date (such redemption, the "Auction Call Redemption").

If (x) any of the foregoing conditions is not met with respect to any Auction, (y) if the highest bidder (or the highest bidder for any subpool, as the case may be) fails to pay the purchase price for any Collateral Debt Security that is not a Synthetic Security or (z) the relevant Synthetic Security Counterparty or assignee fails to pay any net termination or assignment payment owing to the Issuer

under any Synthetic Security, in each case on or before the sixth Business Day prior to the related Quarterly Distribution Date (and, in the case of a failure by the highest bidder to pay for a Subpool or a failure by a Synthetic Security Counterparty or assignee to pay a net termination or assignment payment owing to the Issuer, the Available Redemption Funds are less than the Total Senior Redemption Amount), (a) the Auction Call Redemption shall not occur on the Quarterly Distribution Date following the relevant Auction Date, (b) the Trustee shall give notice of the withdrawal of the redemption notice to the Issuer, the Collateral Manager and the holders of the Notes on or prior to the fifth Business Day preceding the scheduled Redemption Date, (c) subject to clause (e) below, the Trustee shall decline to consummate such sale and shall not solicit any further bids or otherwise negotiate any further sale of Collateral Debt Securities in relation to such Auction, (d) the Issuer shall not terminate or assign any Synthetic Securities in relation to such Auction and (e) unless the Notes are redeemed in full prior to the next succeeding Auction Date, the Trustee (in consultation with the Collateral Manager) shall conduct another Auction on the next succeeding Auction Date.

### **Optional Redemption and Tax Redemption**

Subject to certain conditions described herein, the Issuer may redeem the Notes (such redemption, an "Optional Redemption"), in whole but not in part, at the direction of a Special Majority-in-Interest of Holders of Preferred Securities at the applicable Redemption Price therefor on any Quarterly Distribution Date; *provided* that no such Optional Redemption may be effected prior to the Quarterly Distribution Date occurring in January 2011.

In addition, upon the occurrence of a Tax Event and if the Tax Materiality Condition is satisfied, the Issuer may redeem the Notes (such redemption, a "Tax Redemption") on any Quarterly Distribution Date, in whole but not in part, at the applicable Redemption Price therefor (i) at the written direction of the holders of at least 66⅔% in Aggregate Outstanding Amount of any Class of Notes that, as a result of the occurrence of a Tax Event, has not received 100% of the aggregate amount of principal and interest due and payable to such Class on any Quarterly Distribution Date, as applicable (each such Class, an "Affected Class"), or (ii) at the written direction of a Special Majority-in-Interest of Holders of Preferred Securities.

Under certain circumstances the Initial Holder of Preferred Securities will have the right to direct or prevent the Issuer to undertake an Optional Redemption or Tax Redemption if the conditions in the Indenture are satisfied. See "Risk Factors—The Voting Rights Afforded to the Holders of Preferred Securities May Be Adverse to Holders of Notes."

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

On a Redemption Date, the Available Redemption Funds will be distributed in accordance with the Liquidation Priority of Payments.

Unless a Majority-in-Interest of Holders of Preferred Securities have also directed the Issuer to redeem the Preferred Securities on such Quarterly Distribution Date (see "Description of the Preferred Securities—Redemption of the Preferred Securities"), the amount of Collateral sold in connection with such Optional Redemption or Tax Redemption shall not exceed the amount necessary for the Issuer to obtain the Total Senior Redemption Amount. In addition, no Tax Redemption may be effected unless the Tax Materiality Condition is satisfied.



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

## **Redemption Procedures**

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

The Notes may not be redeemed pursuant to an Optional Redemption or Tax Redemption unless at least six Business Days before the scheduled Redemption Date, the Issuer shall have furnished to the Trustee, and certified to the Trustee that the Issuer (x) has entered into a binding agreement or agreements with, or (y) has obtained firm bids from, (i) one or more entities whose long term unsecured debt obligations (other than such obligations whose rating is based on the credit of a person other than such institution) have a credit rating (or are guaranteed by an entity with such a credit rating) from each Rating Agency (a) at least equal to the rating of the most Senior Class of Notes then outstanding or (b) whose short term unsecured debt obligations have a credit rating of "P-1" by Moody's (and, if rated "P-1," are not on watch for possible downgrade by Moody's), at least "A-1" by Standard & Poor's or (ii) one or more purchasers which otherwise satisfies the Rating Condition or (iii) one or more purchasers (a "Cash Purchaser") which pay the full purchase price in cash on or prior to such sixth Business Day, to sell, not later than the Business Day immediately preceding the scheduled Redemption Date, all or part of the Collateral Debt Securities at a purchase price which, when added to other Available Redemption Funds on the relevant Quarterly Distribution Date, is at least equal to an amount sufficient to pay the Total Senior Redemption Amount (including the additional amount payable by the Issuer under the Hedge Agreement on a Redemption Date).

Any such notice of redemption with respect to an Optional Redemption or a Tax Redemption must be withdrawn by the Issuer on or prior to the fifth Business Day prior to the scheduled Redemption Date by written notice to the Trustee, the Credit Default Swap Counterparty, each Hedge Counterparty, the Preferred Security Paying Agent, the Rating Agencies and the holders of the Notes if on or prior to the sixth Business Day preceding the scheduled Redemption Date (i) the Issuer has not delivered to the Trustee a certification that (1) in its judgment based on calculations included in such certification, the Available Redemption Funds will be sufficient to pay the Total Senior Redemption Amount and (2) the sale prices of such Collateral Debt Securities are not (in the sole judgment of the Collateral Manager) below the fair market value of such Collateral Debt Securities, (ii) the independent accountants appointed by the Issuer have not confirmed in writing the calculations made in such certification or (iii) in the case of any Cash Purchaser, such purchaser has not paid the purchase price in full to the Issuer on or prior to

the sixth Business Day preceding the scheduled Redemption Date. Any notice of redemption with respect to an Auction Call Redemption must be withdrawn under the circumstances described under "—Auction Call Redemption." Notice of any such withdrawal shall be given by the Trustee to each holder of Notes at such holder's address in the Note Register maintained by the Note Registrar by overnight courier guaranteeing next day delivery, sent not later than the fifth Business Day prior to the scheduled Redemption Date. During the period when a notice of redemption may be withdrawn, the Issuer may not terminate any Hedge Agreement and if any Hedge Agreement shall become subject to early termination during such period, the Issuer is obligated to enter into a replacement Hedge Agreement.

The Available Redemption Funds shall take into account any termination or assignment payment to be made by or to the Issuer, and the amount to be released from each Synthetic Security Counterparty Account, in connection with the termination or assignment of the Synthetic Securities, which shall be determined in accordance with the terms of each Synthetic Security. The Issuer and the Trustee may amend the Indenture to change the procedures for implementing a redemption discussed under "—Auction Call Redemption," "—Optional Redemption and Tax Redemption" and "—Redemption Procedures" (but without changing the Redemption Price or the earliest date on which any redemption may occur), including the deadlines, without obtaining the consent of the holder of any Note or Preferred Security.

### **Redemption Price**

The amount payable in connection with any Optional Redemption, Auction Call Redemption or Tax Redemption of any Note (with respect to each Class of Notes, the "Redemption Price") will be an amount (determined without duplication) equal to (i) the Aggregate Outstanding Amount of such Note being redeemed *plus* (ii) accrued interest thereon (including Defaulted Interest and accrued, unpaid and uncapped interest on Defaulted Interest, if any); *provided* that, in the case of a Tax Redemption where the Holders of 100% of the Aggregate Outstanding Amount of an Affected Class of Notes elect to receive less than 100% of the portion of the Total Senior Redemption Amount that would otherwise be payable to the Holders of such Affected Class, the Redemption Price as to such Affected Class is the amount agreed upon by such Affected Class (and the Total Senior Redemption Amount will be reduced accordingly).

### **Cancellation**

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

### **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 Quarterly 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 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 or 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 any Paying Agent, before being required to make any such release of payment may, at the request of the Issuer, adopt and employ, at the expense of the Co-Issuers, any reasonable means of notification of such release of payment, including mailing notice of such release to holders whose Notes have been called but have not been surrendered for redemption or whose right to or interest in monies due and payable but not claimed is determinable from the records of any Paying Agent, at the last address of record of each such holder.

If any withholding tax is imposed on the Issuer's payment under the Notes to any Noteholder, such tax shall reduce the amount of such payment otherwise distributable to such Noteholder. The Trustee is authorized and directed under the Indenture to retain from amounts otherwise distributable to any Noteholder sufficient funds for the payment of any tax that is legally owed by the Issuer (but such authorization will not prevent the Trustee from contesting any such tax in appropriate proceedings and withholding payment of such tax, if permitted by law, pending the outcome of such proceedings). The amount of any withholding tax imposed with respect to any Noteholder will be treated as cash distributed to such Noteholder at the time it is withheld by the Trustee and remitted to the appropriate taxing authority. The Trustee will determine in its sole discretion whether to withhold tax with respect to a distribution in accordance with the Indenture. If any Noteholder wishes to apply for a refund of any such withholding tax, the Trustee will reasonably cooperate with such Noteholder in making such claim so long as such Noteholder agrees to reimburse the Trustee for any out-of-pocket expenses incurred. Failure of a holder of a Note to provide the Trustee, or any Paying Agent, and the Issuer with appropriate tax certificates will result in amounts being withheld from the payment to such holders. The Trustee does not have any obligation to determine the amount of any tax or withholding obligation on the part of the Issuer or in respect of the Collateral Debt Securities. Amounts withheld pursuant to applicable tax laws shall be considered as having been paid by the Issuer as provided in the Indenture. In the event that tax must be withheld or deducted from payments of principal or interest, neither Co-Issuer shall be obliged to make any additional payments to the holders of any Notes on account of such withholding or deduction.

### **Priority of Payments**

With respect to any Quarterly Distribution Date, collections received on the Collateral during each Due Period will be divided into Interest Proceeds and Principal Proceeds and applied (with respect to Principal Proceeds, after the Ramp-Up Period) in the priority set forth below under "—Interest Proceeds" and "—Principal Proceeds," respectively and on a Quarterly Distribution Date that is the Redemption Date, the Stated Maturity or the Accelerated Maturity Date all Interest Proceeds and Principal Proceeds will be applied in the priority set forth below under "Liquidation Priority of Payments" (collectively, the "Priority of Payments").

Interest Proceeds. On each Quarterly Distribution Date (other than the Stated Maturity, a Redemption Date or the Accelerated Maturity Date), after applying funds in the Accounts in accordance with the Account Payment Priority, 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 of the accrued and unpaid Trustee Fee; (b) *second*, to the payment to the Administrator of the accrued and unpaid fees under the Administration Agreement; (c) *third*, to the payment of fees constituting Rating Agency Expenses; (d) *fourth*, in the following order, (i) to the payment of the accrued and unpaid Trustee Expenses other than amounts payable pursuant to any indemnity, and then (ii) *pari passu* to the Rating Agencies, the Administrator and the Collateral Manager in respect of other accrued and unpaid Administrative Expenses other than amounts payable pursuant to any indemnity; (e) *fifth*, to the payment of other accrued and unpaid regularly occurring fees and expenses constituting Administrative Expenses other than amounts payable pursuant to any indemnity and not paid pursuant to items (a) through (d) above; (f) *sixth*, in the following order, (i) to the payment of the accrued and unpaid Trustee Expenses constituting amounts payable pursuant to any indemnity and then (ii) *pari passu* to the Rating Agencies, the Administrator, the Collateral Manager, the Initial Purchaser, the Placement Agent and any other person in respect of other accrued and unpaid Administrative Expenses constituting amounts payable pursuant to any indemnity; *provided* that all payments made pursuant to subclauses (b) through (f) of this clause (2) do not exceed U.S.\$300,000 for any Expense Year and (g) *seventh*, on any Quarterly Distribution Date after the July 2007 Quarterly Distribution Date, to the Expense Account, an amount equal to the lesser of any amount specified by the Collateral Manager to the Trustee and the excess of U.S.\$300,000 over the amounts paid pursuant to subclauses (b) through (f) of this clause (2) on such Quarterly Distribution Date and the immediately preceding Quarterly Distribution Date during the Expense Year;
- (3) (a) *first*, to the payment of accrued and unpaid Senior Management Fees and (b) *second*, on any Quarterly Distribution Date, to the payment of any Senior Management Fee that was deferred on any prior Distribution Date;
- (4) *pari passu* (based on the amount then due and payable) (a) to the payment of all amounts scheduled to be paid to any Hedge Counterparty pursuant to the applicable Hedge Agreement, together with any termination payments (and any accrued interest thereon) payable by the Issuer pursuant to the applicable Hedge Agreement, other than any Deferred Termination Payment and (b) to the payment of any amounts payable to the Credit Default Swap Counterparty (including termination payments, and accrued interest thereon, other than Defaulted Synthetic Termination Payments) to the extent that such amounts are not payable from the CDS Reserve Account (or no funds are available in the CDS Reserve Account) or from Class A-1 Fundings (or no proceeds of Class A-1 Fundings are available);
- (5) *pari passu* (based on the amount then due and payable) (a) to the payment of the Interest Distribution Amount with respect to the Class A-1 Notes and (b) the Class A-1 Swap Availability Fee Amount to the Class A-1 Swap Counterparty;
- (6) *pari passu* (based on the amount then due and payable) (a) to the payment of the Interest Distribution Amount with respect to the Class A-2A Notes and (b) to the payment of the Interest Distribution Amount with respect to the Class A-2B 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) on each Quarterly Distribution Date following the occurrence of a Rating Confirmation Failure, in the event that the Issuer is unable to obtain a Rating Confirmation, *first*, to the payment of

principal of the Class A-1 Notes, *second*, to the CDS Reserve Account until the Aggregate Undrawn Amount is reduced to zero, *third*, to the payment of principal of the Class A-2A Notes, *fourth*, to the payment of principal of the Class A-2B Notes, *fifth*, to the payment of principal of the Class B Notes, and *sixth*, to the payment of principal of the Class C Notes to the extent specified by each relevant Rating Agency in order to obtain a Rating Confirmation or to the extent specified in a Proposed Plan which satisfied the Rating Condition with respect to any Rating Agency which did not issue a Rating Confirmation;

- (10) to the payment, *first*, of the Interest Distribution Amount with respect to the Class D Notes, *second*, to the payment of the Class D Unpaid Interest and, *third*, on each Quarterly Distribution Date following the occurrence of a Rating Confirmation Failure in the event that the Issuer is unable to obtain a Rating Confirmation, to the payment of principal of the Class D Notes, to the extent specified by the relevant Rating Agency in order to obtain a Rating Confirmation or to the extent specified in a Proposed Plan which satisfied the Rating Condition with respect to any Rating Agency which did not issue a Rating Confirmation;
- (11) to the payment, *first*, of the Interest Distribution Amount with respect to the Class E Notes and, then, to the payment of the Class E Unpaid Interest Amount;
- (12) on each Quarterly Distribution Date following the occurrence of a Rating Confirmation Failure, in the event that the Issuer is unable to obtain a Rating Confirmation, to the payment of principal of the Class E Notes, to the extent specified by each relevant Rating Agency in order to obtain a Rating Confirmation or to the extent specified in a Proposed Plan which satisfied the Rating Condition with respect to any Rating Agency which did not issue a Rating Confirmation;
- (13) to the payment, *first*, of the Interest Distribution Amount with respect to the Class F Notes and, then, to the payment of the Class F Unpaid Interest Amount;
- (14) on each Quarterly Distribution Date following the occurrence of a Rating Confirmation Failure, in the event that the Issuer is unable to obtain a Rating Confirmation, to the payment of principal of the Class F Notes, to the extent specified by each relevant Rating Agency to obtain a Rating Confirmation or to the extent specified in a Proposed Plan which satisfied the Rating Condition with respect to any Rating Agency which did not issue a Rating Confirmation;
- (15) to the payment, *first*, of the Interest Distribution Amount with respect to the Class G Notes and, then, to the payment of the Class G Unpaid Interest Amount;
- (16) on each Quarterly Distribution Date following the occurrence of a Rating Confirmation Failure, in the event that the Issuer is unable to obtain a Rating Confirmation, to the payment of principal of the Class G Notes, to the extent specified by each relevant Rating Agency to obtain a Rating Confirmation or to the extent specified in a Proposed Plan which satisfied the Rating Condition with respect to any Rating Agency which did not issue a Rating Confirmation;
- (17) on each Quarterly Distribution Date from and including the Quarterly Distribution Date in January 2007, 15% of the remaining Interest Proceeds to the payment of principal on the Class F Notes and the Class G Notes, *pro rata* based on the Aggregate Outstanding Amounts thereof (as of the related Determination Date), until the Class F Notes and the Class G Notes have been paid in full;
- (18) to the payment of, *first*, all other accrued and unpaid Administrative Expenses to the extent not paid pursuant to clause (2) above (whether as the result of, and without regard to, the limitations

on amounts set forth therein or otherwise and in the same order of priority specified in clause (2) above) and, *second*, to the Expense Account, such amount as would have caused the balance of all Eligible Investments and cash in the Expense Account immediately after such deposit to equal U.S.\$150,000 or such lesser amount as the Collateral Manager, in its sole discretion, shall determine;

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

(20) the remaining amount, if any, in the following order of priority:

(A) *first*, to the Preferred Security Paying Agent for distribution to the Holders of the Class A Preferred Securities, the amounts specified in clauses (I)(i), (ii) and (iii) of the Preferred Security Distribution Priority;

(B) *second*, the remaining amount (if any) to the payment of accrued and unpaid Subordinated Management Fees and, *then*, to the payment of any Subordinated Management Fee that was deferred on any prior Quarterly Distribution Date; and

(C) *third*, the remaining amount (if any) to the Preferred Security Paying Agent for distribution to the Holders of the Class B Preferred Securities in accordance with clause (I)(iv) of the Preferred Security Distribution Priority.

Notwithstanding the foregoing, in the event that, prior to the first Quarterly Distribution Date, the Issuer has not obtained a Rating Confirmation from Standard & Poor's or has not either submitted an accountant's report to Moody's showing the Issuer's compliance with the Collateral Quality Tests (other than the Standard & Poor's Minimum Recovery Rate Test and the Standard & Poor's CDO Monitor Test) or obtained a Rating Confirmation from Moody's, the Issuer will not make any distributions under clause (20) of the Interest Proceeds Waterfall on the first Quarterly Distribution Date. Any amount that otherwise would have been distributed under such clause shall be retained in the Payment Account and distributed (x) at such time as the Issuer obtains a Rating Confirmation from each Rating Agency (and the Trustee shall make such distribution on the Business Day after it receives written notice from the Collateral Manager that the Issuer has obtained a Rating Confirmation from each Rating Agency) or (y) on the next Quarterly Distribution Date if a Rating Confirmation Failure occurs.

*Principal Proceeds.* On each Quarterly Distribution Date (other than a Redemption Date, the Stated Maturity or the Accelerated Maturity Date), after applying funds in the Accounts in accordance with the Account Payment Priority, Principal Proceeds (and to the extent described in the Sequential Payment Priority and the Pro Rata Payment Priority, the CDS Reserve Account Excess Withdrawal Amount) 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 (8) of the Interest Proceeds Waterfall in the same order of priority and subject to any applicable cap specified therein and subject to the same limitations set forth therein, but only to the extent not paid in full thereunder;
- (2) (a) *first*, on each Quarterly Distribution Date following a Rating Confirmation Failure, to the payment of principal of the Notes in accordance with the Sequential Payment Priority to the extent specified by any relevant Rating Agency in order to obtain a Rating Confirmation with

respect to the Notes or to the extent specified in a Proposed Plan which satisfied the Rating Condition with respect to any Rating Agency which did not issue a Rating Confirmation; and (b) *second*, if a Notional Amount Shortfall exists on the Determination Date, to be deposited into the CDS Reserve Account until no Notional Amount Shortfall exists;

- (3) if such Quarterly Distribution Date is on or prior to the last day of the Reinvestment Period, all remaining Principal Proceeds other than any Specified Principal Proceeds (which shall be assumed to have been applied, first, to pay amounts payable pursuant to clauses (1) and (2) before other Principal Proceeds are applied to pay such amounts) shall be deposited in the Collection Account, to remain available for application to the purchase of additional Collateral Debt Securities by not later than the last day of the Due Period relating to the Quarterly Distribution Date immediately following the current Quarterly Distribution Date;
- (4) if such Quarterly Distribution Date occurs during a Sequential Pay Period, to pay principal of the Notes and to make a deposit to the CDS Reserve Account in accordance with the Sequential Payment Priority;
- (5) if such Quarterly Distribution Date occurs during a Pro Rata Pay Period, to pay principal of the Notes and to make a deposit to the CDS Reserve Account in accordance with the Pro Rata Payment Priority;
- (6) to the payment of amounts referred to in clauses (18) and (19) of the Interest Proceeds Waterfall in the same order of priority specified therein, but only to the extent not paid thereunder; and
- (7) the remaining amount, if any, in the following order of priority:
  - (A) *first*, to the Preferred Security Paying Agent for distribution to the Holders of the Class A Preferred Securities, clauses (II)(i) and (ii), as applicable, of the Preferred Security Distribution Priority;
  - (B) *second*, if the Remaining Class A Balance, the Class A Preferred Security Return Amount and the Prior Period Accrued Amount have been paid in full, the remaining amount (if any) to the payment of accrued and unpaid Subordinated Management Fees and, *then*, to the payment of any Subordinated Management Fee that was deferred on any prior Quarterly Distribution Date; and
  - (C) *third*, the remaining amount (if any) to the Preferred Security Paying Agent for distribution to the Holders of the Class B Preferred Securities in accordance with clauses (II)(iii) of the Preferred Security Distribution Priority.

Liquidation Priority of Payments. On any Redemption Date, the Stated Maturity or the Accelerated Maturity Date, after applying funds in the Accounts in accordance with the Account Payment Priority, Interest Proceeds, Principal Proceeds and any CDS Reserve Account Excess Withdrawal Amount will be applied in the order of priority (the "Liquidation Priority of Payments") set forth below (i) *first*, to the payment of all amounts payable under clauses (1) through (4) of the Interest Proceeds Waterfall, (ii) *second*, to the payment of interest with respect to the Class A-1 Notes and the Class A-1 Swap Availability Fee (in each case including Defaulted Interest and accrued interest thereon), (iii) *third*, to the payment of the Outstanding Class A-1 Funded Amount (including any Class A-1 Funding made or to be made on such date) until the Outstanding Class A-1 Funded Amount is reduced to zero and then to make a deposit to the CDS Reserve Account equal to the excess (if any) of the Remaining Exposure over the CDS Reserve Account Balance, (iv) *fourth, pari passu*, to the payment of interest with respect to the Class A-2A Notes and Class A-2B Notes (in each case, including Defaulted Interest and accrued interest

thereon), (v) *fifth*, to the payment of principal of the Class A-2A Notes until the Class A-2A Notes have been paid in full, (vi) *sixth*, to the payment of principal of the Class A-2B Notes until the Class A-2B Notes have been paid in full, (vii) *seventh*, to the payment of interest with respect to the Class B Notes (including Defaulted Interest and accrued interest thereon), (viii) *eighth*, to the payment of principal of the Class B Notes until the Class B Notes have been paid in full, (ix) *ninth*, to the payment of interest with respect to the Class C Notes (including Defaulted Interest and accrued interest thereon), (x) *tenth*, to the payment of principal of the Class C Notes until the Class C Notes have been paid in full, (xi) *eleventh*, to the payment of interest with respect to the Class D Notes (including Defaulted Interest and accrued interest thereon and the Class D Unpaid Interest Amount), (xii) *twelfth*, to the payment of principal of the Class D Notes until the Class D Notes have been paid in full; (xii) *thirteenth*, to the payment of interest with respect to the Class E Notes (including Defaulted Interest and accrued interest thereon and Class E Unpaid Interest Amount), (xiv) *fourteenth*, to the payment of principal of the Class E Notes until the Class E Notes have been paid in full, (xv) *fifteenth*, to the payment of interest with respect to the Class F Notes (including Defaulted Interest and accrued interest thereon and Class F Unpaid Interest Amount), (xvi) *sixteenth* to the payment of principal of the Class F Notes until the Class F Notes have been paid in full, (xvii) *seventeenth*, to the payment of interest with respect to the Class G Notes (including Defaulted Interest and accrued interest thereon and Class G Unpaid Interest Amount), (xviii) *eighteenth*, to the payment of principal of the Class G Notes until the Class G Notes have been paid in full, (xix) *nineteenth*, to the payments of expenses and other amounts referred to in clauses (18) and (19) of the Interest Proceeds Waterfall and (xx) *twentieth, first*, to the Preferred Security Paying Agent for distribution to the Holders of Preferred Securities of the amount required to pay the Remaining Class A Balance, the Class A Preferred Security Return Amount and the Prior Period Accrued Amount, then *second*, to the Collateral Manager the amount of any accrued and unpaid Subordinated Management Fees, and *third* to the Preferred Security Paying Agent the remaining amount if any.

General. Except as otherwise expressly provided in the Priority of Payments, if on any Quarterly 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 or subclause of the Interest Proceeds Waterfall or the Principal Proceeds Waterfall to different Persons, the Trustee will make the disbursements called for by each such clause or such subclause 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 Preferred Security Paying Agent pursuant to clause (20) of the Interest Proceeds Waterfall or clause (7) of the Principal Proceeds Waterfall or clause (xx) of the Liquidation Priority of Payments will be released from the lien of the Indenture. Notwithstanding the foregoing, on any Post-Acceleration Quarterly Distribution Date, in the event that after the application of Principal Proceeds and the application of Interest Proceeds under clauses (1) through (19) of the Interest Proceeds Waterfall the principal amount of the Notes has not been paid in full, any amount distributable under clause (20) of the Interest Proceeds Waterfall shall be applied first to pay such principal (in order of seniority) of the Notes prior to making any distribution to the Preferred Security Paying Agent.

Notwithstanding anything in the Priority of Payments to the contrary, in the event (and to the extent) that Interest Proceeds and Principal Proceeds will not be sufficient (after paying other amounts senior in priority thereto) to pay the Class A-1 Swap Availability Fee and the Interest Distribution Amounts on the Class A Notes, the B Notes or the Class C Notes on a Quarterly Distribution Date in accordance with the Priority of Payments, the Trustee shall not apply funds to make payments of Administrative Expenses or a deposit to the Expense Account on such Distribution Date, *provided* that such Administrative Expenses shall be paid on or prior to the next subsequent Quarterly Distribution Date.



If the Notes and the Preferred Securities have not been redeemed prior to the Stated Maturity, it is expected that the Issuer will Dispose of the Collateral Debt Securities and all Eligible Investments then standing to the credit of the Accounts (other than the Hedge Counterparty Collateral Account, the Class A-1 Swap Prefunding Account, and any Synthetic Security Issuer Account) and sell or liquidate all other Collateral, and all net proceeds from such liquidation and all available cash will be applied to the payment (in the order of priorities set forth above) of all (i) fees, (ii) expenses and termination payments (including the amounts due to the Credit Default Swap Counterparty and each Hedge Counterparty), (iii) principal of and interest, Defaulted Interest and interest on Defaulted Interest, if any on the Notes and Class A-1 Swap Availability Fee. Net proceeds from such liquidation and available cash remaining (after all payments required pursuant to the Indenture and the payment of the costs and expenses of such liquidation, the establishment of adequate reserves to meet all contingent, unliquidated liabilities or obligations of the Issuer, the return of U.S.\$1,000 of capital contributed to the Issuer by, and the payment of a U.S.\$1,000 profit fee to, the owner of the Issuer's ordinary shares) will be distributed to the Holders of Preferred Securities in accordance with the Preferred Security Documents and Cayman Islands law.

*Pro Rata Payment Priority.* During a Pro Rata Pay Period, so long as a Rating Confirmation Failure has not occurred, the Issuer will apply Distributable Principal Proceeds, together with all or a portion of the CDS Reserve Account Excess Withdrawal Amount, in accordance with the following priorities (the "Pro Rata Payment Priority"):

(I) *first*, an amount equal to the Class A-1 Principal Payment, will be applied to pay the principal amount of the Class A-1 Notes and, if there is no principal amount of the Class A-1 Notes Outstanding, to make a deposit to the CDS Reserve Account until the Aggregate Undrawn Amount is reduced to zero, and,

(II) *second*, all of the remaining Principal Proceeds or Specified Principal Proceeds, as applicable, and the remaining CDS Reserve Account Excess Withdrawal Amount will be applied to pay the Junior Note Reduction Amount in accordance with the following priorities:

(1) *first*, an amount equal to the Class A-2 Pro Rata Principal Payment Cap will be applied to pay, *first*, the principal amount of the Class A-2A Notes until paid in full and *second*, the principal amount of the Class A-2B Notes;

(2) *second*, an amount equal to the Class B Pro Rata Principal Payment Cap will be applied to pay the principal amount of the Class B Notes;

(3) *third*, an amount equal to the Class C Pro Rata Principal Payment Cap will be applied to pay the principal amount of the Class C Notes;

(4) *fourth*, the remaining amount (if any) will be applied, (i) *first*, to pay interest on the Class D Notes to the extent not paid under the Interest Proceeds Waterfall (including Defaulted Interest and accrued interest thereon and the Class D Unpaid Interest Amount) and (ii) *second*, to apply an amount equal to the Class D Pro Rata Principal Payment Cap to pay the principal amount of the Class D Notes;

(5) *fifth*, the remaining amount (if any) will be applied, (i) *first*, to pay interest on the Class E Notes to the extent not paid under the Interest Proceeds Waterfall (including Defaulted Interest and accrued interest thereon and the Class E Unpaid Interest Amount) and (ii) *second*, to apply an amount equal to the Class E Pro Rata Principal Payment Cap to pay the principal amount of the Class E Notes;

(6) *sixth*, the remaining amount (if any) will be applied, (i) *first*, to pay interest on the Class F Notes to the extent not paid under the Interest Proceeds Waterfall (including Defaulted Interest and accrued interest thereon and the Class F Unpaid Interest Amount) and (ii) *second*, to apply an amount equal to the Class F Pro Rata Principal Payment Cap to pay the principal amount of the Class F Notes; and

(7) *seventh*, the remaining amount (if any) will be applied, (i) *first*, to pay interest on the Class G Notes to the extent not paid under the Interest Proceeds Waterfall (including Defaulted Interest and accrued interest thereon and the Class G Unpaid Interest Amount) and (ii) *second*, to apply an amount equal to the Class G Pro Rata Principal Payment Cap to pay the principal amount of the Class G Notes.

*Sequential Payment Priority.* During a Sequential Pay Period, the Issuer will apply Principal Proceeds or Specified Principal Proceeds (whichever is applicable) available in accordance with clause (2) or clause (4) of the Principal Proceeds Waterfall and the CDS Reserve Account Excess Withdrawal Amount (if any) in accordance with the following priorities (the "Sequential Payment Priority"): first, to the payment of principal of the Class A-1 Notes until paid in full, second, to make a deposit to the CDS Reserve Account until the Aggregate Undrawn Amount is reduced to zero, third, to the payment of principal of the Class A-2A Notes until paid in full, fourth, to the payment of principal of the Class A-2B Notes until paid in full, fifth, to the payment of principal of the Class B Notes until paid in full, sixth, to the payment of principal of the Class C Notes until paid in full, seventh, to the payment of interest with respect to the Class D Notes (including Defaulted Interest and accrued interest thereon and the Class D Unpaid Interest Amount) to the extent not paid under the Interest Proceeds Waterfall, eighth, to the payment of principal of the Class D Notes until paid in full, ninth, to the payment of interest with respect to the Class E Notes (including Defaulted Interest and accrued interest thereon and Class E Unpaid Interest Amount) to the extent not paid under the Interest Proceeds Waterfall, tenth, to the payment of principal of the Class E Notes until paid in full, eleventh, to the payment of interest with respect to the Class F Notes (including Defaulted Interest and accrued interest thereon and Class F Unpaid Interest Amount) to the extent not paid under the Interest Proceeds Waterfall, twelfth, to the payment of principal of the Class F Notes until paid in full, thirteenth, to the payment of interest with respect to the Class G Notes (including Defaulted Interest and accrued interest thereon and Class G Unpaid Interest Amount) to the extent not paid under the Interest Proceeds Waterfall and fourteenth, to the payment of principal of the Class G Notes until paid in full.

If payments of principal will be made in accordance with the Sequential Payment Priority, (i) on a Quarterly Distribution Date during the Reinvestment Period, the CDS Reserve Account Excess Withdrawal Amount shall not exceed the Outstanding Class A-1 Funded Amount if the Aggregate Undrawn Amount is more than zero, unless the Collateral Manager otherwise directs the Trustee and (ii) on a Quarterly Distribution Date after the Reinvestment Period, the full CDS Reserve Account Excess Withdrawal Amount shall be applied on each Quarterly Distribution Date.

*CDS Application Priority.* The Issuer will allocate CDS Principal Proceeds or, in the case of clause (3) below, Specified CDS Principal Proceeds in accordance with the following priorities (the "CDS Application Priority"):

- (1) during the Reinvestment Period, to Acquire additional Credit Default Swaps in accordance with the Eligibility Criteria, but only if no Notional Amount Shortfall exists or would result from such Acquisition;
- (2) on each Quarterly Distribution Date following a Rating Confirmation Failure, in the event that the Issuer does not obtain a Rating Confirmation, to reduce permanently the Aggregate Undrawn

Amount to the extent specified by each relevant Rating Agency in order to obtain a Rating Confirmation with respect to the Notes or to the extent specified in a Proposed Plan which satisfied the Rating Condition with respect to any Rating Agency which did not issue a Rating Confirmation;

- (3) on each Quarterly Distribution Date prior to the end of the Reinvestment Period, to reduce permanently the Aggregate Undrawn Amount under the Class A-1 Swap by (i) the amount of the Specified CDS Principal Proceeds for the related Due Period if the Quarterly Distribution Date occurs in a Sequential Pay Period, or (ii) the Class A-1 Reduction Amount for the related Due Period if the Distribution Date occurs during a Pro Rata Pay Period; and
- (4) on each Quarterly Distribution Date on or after the end of the Reinvestment Period, to reduce permanently the Aggregate Undrawn Amount under the Class A-1 Swap by (i) the amount of the CDS Principal Proceeds for the related Due Period if such Quarterly Distribution Date occurs during a Sequential Pay Period, or (ii) the Class A-1 Reduction Amount for the related Due Period if such Quarterly Distribution Date occurs during a Pro Rata Pay Period; *provided* that, on the Quarterly Distribution Date on which the Reinvestment Period ends (or the second Quarterly Distribution Date thereafter if it does not end on a Quarterly Distribution Date), all CDS Principal Proceeds which were not theretofor applied shall be deemed to be CDS Principal Proceeds received in the related Due Period.

On each Quarterly Distribution Date the allocations described above shall be made prior to the determination of the CDS Reserve Account Excess Withdrawal Amount for such Due Period.

*Voluntary Prepayment of Outstanding Class A-1 Amount.* On any Quarterly Distribution Date, the Collateral Manager, on behalf of the Issuer, may direct the Trustee to apply funds in the CDS Reserve Account to pay the Outstanding Class A-1 Funded Amount, which payment shall not constitute a Permanent Reduction Amount (and, if the conditions in the Class A-1 Swap are satisfied, shall result in an increase in the Aggregate Undrawn Amount), *provided* that the Collateral Manager certifies to the Trustee that (after taking into account such withdrawal from the CDS Reserve Account and all other withdrawals to be made from the CDS Reserve Account on or prior to such Quarterly Distribution Date), (i) there will not be a Notional Amount Shortfall in excess of zero on such Quarterly Distribution Date and (ii) the Distributable Principal Proceeds together with the CDS Reserve Account Excess Withdrawal Amount will be sufficient to pay the full amount of the Junior Note Reduction Amount (determined without regard to clause (B) of the definition thereof) to be paid on such Quarterly Distribution Date.

*Account Payment Priority.* Before requesting a Class A-1 Funding under the Class A-1 Swap to fund a Permitted Use, the Issuer will apply all funds, securities and other property standing to the credit of the Accounts (excluding any amount irrevocably designated for withdrawal therefrom for application to another purpose permitted under the Indenture) specified below in the order of seniority specified below (the "Account Payment Priority"):

(a) in the case of Floating Amounts (other than Interest Shortfalls) and Physical Settlement Amounts payable by the Issuer under Unhedged Long Credit Default Swaps and Swap Termination Payments payable by the Issuer under any Credit Default Swap, the excess, if any, of such amounts that the Issuer is required to pay to the Credit Default Swap Counterparty over any Floating Amounts (other than Interest Shortfalls), Physical Settlement Amounts and Swap Termination Payments that the Credit Default Swap Counterparty is required to pay to the Issuer under the Credit Default Swaps, (i) *first*, from the Uninvested Proceeds Account, (ii) *second*, from the Principal Collection Account, and (iii) *third*, from the CDS Reserve Account; and

(b) in the case of Net Issuer Hedged Long Fixed Amounts payable by the Issuer in respect of Hedged Long Credit Default Swaps, (i) *first*, from the Interest Collection Account, (ii) *second*, from the Uninvested Proceeds Account, (iii) *third*, from the Principal Collection Account, (iv) *fourth*, from the income on investments in the CDS Reserve Account (if it is not payable to MLI under the Total Return Swap), and (v) *fifth*, from the CDS Reserve Account.

## **Form, Denomination, Registration and Transfer**

### General

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

(ii) The 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, and deposited with the Trustee as custodian for, and registered in the name of, DTC or its nominee. Interests in Restricted Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and Indirect Participants.

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

(iv) 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. 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, JPMorgan Chase Bank, National Association will be appointed and will serve as the registrar with respect to the Notes (in such capacity, the "Note Registrar") and will provide for the registration of Notes and the registration of transfers of Notes in the register maintained by

it (the "Note Register"). JPMorgan Chase Bank, National Association will be appointed as a transfer agent with respect to the Notes (in such capacity, the "Note Transfer Agent").

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

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

(ix) After issuance, the Class A-1 Notes may fail to be in an amount which is an integral multiple of U.S.\$1,000 if the aggregate principal amount advanced by the Class A-1 Noteholders is less than the minimum denomination.

(x) 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 in the case of the Notes (if the Indenture requires that a transfer certificate be delivered in connection with such a transfer).

#### Global Notes

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

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

the registered owner of the Global Note. None of the Issuer, the Trustee, the Note Registrar or any Paying Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

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

#### Definitive Notes

Interests in a Regulation S Note or a Restricted Note represented by a Global Note will be exchangeable or transferable, as the case may be, for a Regulation S Note or a Restricted Note, respectively, that is a Definitive Note if (a) DTC notifies the Issuer that it is unwilling or unable to continue as depositary for such Note, (b) DTC ceases to be a "Clearing Agency" registered under the Exchange Act, and a successor depositary is not appointed by the Issuer within 90 days or (c) the Issuer approves it, at the request of the Initial Purchaser, MLI or a Noteholder. 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 Preferred Security 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, in the case of an interest in a Note, the Note Registrar of written certifications from the transferor of the beneficial interest in the form provided in the Indenture to the effect that, among other things, such transfer is being made (a) to a person whom the transferor reasonably believes is a (x) Qualified Institutional Buyer to whom notice is given that the transfer is being made in reliance on Rule 144A and (y) to a Qualified Purchaser, and (b) in accordance with any applicable securities laws of any state of the United States or any other jurisdiction and from the transferee in the form provided for in the Indenture. Exchanges or transfers by a holder of a Note represented by a Definitive Note to a transferee who takes delivery of such Note in the form of a beneficial interest in a Restricted Global Note will be made no later than 60 days after the receipt by, in the case of a Note, the Note Registrar or Note Transfer Agent of the Definitive Notes to be so exchanged or transferred only in accordance with the Applicable Procedures, and, if applicable, upon receipt by, in

the case of a Note, 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, in the case of an interest in a Note, to the Trustee, the Co-Issuers and the Note Registrar of written certification from the transferee and transferor in the form provided for in the Indenture.

The Indenture provides that if, notwithstanding the restrictions on transfer contained therein, either of the Co-Issuers determines that any beneficial owner or holder of (A) a Regulation S Note (or any interest therein) is a U.S. Person or (B) a Restricted Note (or any interest therein) is not a Qualified Institutional Buyer and also a Qualified Purchaser, then either of the Co-Issuers shall require, by notice to such beneficial owner or holder, as the case may be, that such beneficial owner or holder sell all of its right, title and interest to such Restricted Note (or any interest therein) to a person that (1) is not a U.S. Person (in the case of a person holding its interest through a Regulation S Note) or (2) in the case of a person holding its interest through a Restricted Note, is both (I) a Qualified Institutional Buyer and (II) a Qualified Purchaser, with such sale to be effected within 30 days after notice of such sale requirement is given. If such beneficial owner or holder fails to effect the transfer required within such 30-day period, (i) upon written direction from the Collateral Manager or the Issuer, the Trustee shall, and is hereby irrevocably authorized by such beneficial owner or holder to, on behalf of and at the expense of the Issuer, cause such beneficial owner's or holder's interest in such Note to be transferred in a commercially reasonable sale (conducted by an investment bank selected by the Trustee, and approved by the Issuer in accordance with Section 9-610(b) of the Uniform Commercial Code as in effect in the State of New York as applied to securities that are sold on a recognized market or that may decline speedily in value) to a person that certifies to, in the case of a Note, the Trustee and the Co-Issuers and the Issuer, in connection with such transfer, that such person (x) is not a U.S. Person (in the case of a person holding its interest through a Regulation S Note) or (y) is both (1) a Qualified Institutional Buyer and (2) a Qualified Purchaser (in the case of a person holding its interest through a Restricted Note) and (ii) pending such transfer, no further payments will be made in respect of such Note held by such beneficial owner or holder and such Note shall be deemed not to be outstanding for the purpose of any vote or consent of the Noteholders.

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

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

Restricted Global Note without the provision of written certification if the transferee is a Qualified Institutional Buyer and a Qualified Purchaser.

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

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

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

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

(ix) Subject to compliance with the transfer restrictions applicable to the Notes described above and under "Transfer Restrictions," cross-market transfers between DTC, on the one hand, and directly or indirectly through Euroclear or Clearstream, Luxembourg participants, on the other, will be effected in DTC in accordance with DTC rules on behalf of Euroclear or Clearstream, Luxembourg, as the case may be, by its respective depository; *however*, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, Luxembourg, as the case may be, by the counterparty in such system in accordance with its rules and procedures and within its established deadlines (Brussels time). Euroclear or Clearstream, Luxembourg, as the case may be, will if the transaction meets its settlement requirements, deliver instructions to its respective depository to take action to effect final



settlement on its behalf by delivering or receiving interests in a Regulation S Global Note in DTC and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Clearstream, Luxembourg participants and Euroclear participants may not deliver instructions directly to the depositaries of Euroclear or Clearstream, Luxembourg.

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

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

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

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

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

### **No Gross-Up**

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

## The Indenture

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

### Events of Default

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

(i) a default in the payment of the Class A-1 Swap Availability Fee when due to the Class A-1 Swap Counterparty or a default in the payment of any accrued interest (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) on any Class C Note when the same becomes due and payable, (d) if there are no Class A Notes, Class B Notes or Class C Notes outstanding (and the Swap Period Termination Date has occurred), on any Class D Note when the same becomes due and payable, (e) if there are no Class A Notes, Class B Notes, Class C Notes or Class D Notes outstanding (and the Swap Period Termination Date has occurred), on any Class E Note when the same becomes due and payable, (f) if there are no Class A Notes, Class B Notes, Class C Notes, Class D Notes or Class E Notes outstanding (and the Swap Period Termination Date has occurred), on any Class F Note when the same becomes due and payable and (g) if there are no Class A Notes, Class B Notes, Class C Notes, Class D Notes, Class E Notes or Class F Notes outstanding (and the Swap Period Termination Date has occurred), on any Class G Note when the same becomes due and payable, in each case which default continues for a period of five 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 Preferred Security Paying Agent) or the Note Registrar, such default continues for a period of seven Business Days after any of the Issuer, the Co-Issuer or the Collateral Manager has actual knowledge thereof or after written 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 the Controlling Class, by the Credit Default Swap Counterparty or by a Hedge Counterparty, in each case specifying such default or breach and requiring it to be remedied and stating that it is a "notice of default" under the Indenture);

(ii) a default in the payment of principal of any Note when the same becomes due and payable at its Stated Maturity or Redemption Date (and, in the case of a payment default resulting solely from an administrative error or omission by the Trustee, the Administrator, a Paying Agent (other than the Preferred Security 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 excess of U.S.\$500 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 Preferred Security 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 written 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 the Controlling Class, by the Credit Default Swap Counterparty or by a Hedge

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

(iv) either of the Co-Issuers or the pool of Collateral becomes an investment company required to be registered under the Investment Company Act (unless such requirement is eliminated or resolved within 30 days, to the extent permitted under applicable law);

(v) a default in the performance, or breach, of any other covenant or other agreement (it being understood that a failure to satisfy a Collateral Quality Test, the Class A Sequential Pay Test, the Standard & Poor's CDO Monitor Test or the Eligibility Criteria is not a default or breach) of the Issuer or the Co-Issuer under the Indenture or any representation or warranty of the Issuer or the Co-Issuer made in the Indenture or in any certificate or other writing delivered pursuant thereto or in connection therewith proves to be incorrect in any material respect when made, which breach, violation, default or incorrect representation or warranty is reasonably expected to have a material and adverse effect on the interest of any of the Noteholders, and the continuation of such default, breach or incorrectness for a period of 45 consecutive days (or, if such default, breach or incorrectness has an adverse effect on the validity, perfection or priority of the security interest granted under the Indenture, 30 consecutive days) after written 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 the Controlling Class, by the Credit Default Swap Counterparty or by a Hedge Counterparty, in each case specifying such default or breach and requiring it to be remedied and stating that it is a "notice of default" under the Indenture;

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

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

(viii) an Early Termination Date is designated under the ISDA Master Agreement (and a CDS Replacement has not occurred), *provided* that if such Early Termination Date is designated by the Issuer based on an "Event of Default" or "Termination Event" with respect to which the Credit Default Swap Counterparty is the "Defaulting Party" or an "Affected Party" a Majority of each Class of the Notes must consent in writing to such event constituting an "Event of Default" for purposes of the Indenture; or

(ix) in the event that on any Determination Date the Class A Sequential Pay Ratio is less than 100%.

If the amount of the Class A-1 Swap Availability Fee or principal on the Notes paid by the Issuer on a Quarterly Distribution Date is less than the amount which should have been paid as a result of an error in the calculation of such payments because the Issuer or the Trustee relied on any incorrect amount for the CDS Principal Proceeds, the Remaining Exposure or the Aggregate Undrawn Amount it will not be an Event of Default under the Indenture if the correct payment is made by the Issuer on the Quarterly Distribution Date relating to the first Determination Date following the Trustee's receipt of notice of such error. If either of the Co-Issuers obtains knowledge or has reason to believe that an Event of Default has occurred and is continuing, such Co-Issuer is obligated promptly to notify the Trustee, the Preferred Security Paying Agent, the Noteholders, the Collateral Manager, each Hedge Counterparty, the Credit Default Swap Counterparty and each Rating Agency of such Event of Default in writing.

The Trustee shall notify the Collateral Manager within 5 Business Days of the Trustee becoming aware of an Event of Default. The Collateral Manager shall notify the Trustee within 5 Business Days of the Collateral Manager becoming aware of an Event of Default.

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

If an Event of Default occurs and is continuing when any Note is outstanding (or when the Swap Period Termination Date has not occurred) or the Remaining Exposure under the Credit Default Swaps is greater than zero, the Trustee will not terminate any Hedge Agreement (unless the Issuer has entered into a replacement Hedge Agreement for such terminated Hedge Agreement) and will retain the Collateral intact and collect all payments in respect of the Collateral and continue making payments in the manner described under "—Priority of Payments" unless:

(A) the Trustee determines that the anticipated net proceeds of a sale or liquidation of such Collateral would be sufficient to discharge in full the amounts then due and unpaid on the Notes for principal and interest (including the Class D Unpaid Interest Amount, the Class E Unpaid Interest Amount, the Class F Unpaid Interest Amount, the Class G Unpaid Interest Amount, Defaulted Interest and interest on Defaulted Interest, if any), to pay the accrued and unpaid Class A-1 Swap Availability Fee, to reduce the Remaining Exposure under the Credit Default Swaps to zero, to pay due and unpaid Administrative Expenses, to pay all amounts due to the Hedge Counterparties and the Credit Default Swap Counterparty (including any termination payment and any accrued interest thereon assuming for this purpose, that each Hedge Agreement or Credit Default Swap, as applicable, has been terminated by reason of an event of default or termination event with respect to the Issuer) and accrued and unpaid Senior Management Fees;

(B) the holders of at least  $66\frac{2}{3}\%$  of the Aggregate Outstanding Amount of each Class of Notes voting as a separate Class, the Credit Default Swap Counterparty and each Hedge Counterparty (unless no early termination payment (other than Unpaid Amounts) would be owing by the Issuer to such Hedge Counterparty upon the termination thereof by reason of an event of default or termination event under the relevant Hedge Agreement with respect to the Issuer), subject to the provisions of the Indenture, direct the sale of the Collateral; or

(C) The Class A-1 Note Parties comprising at least  $66\frac{2}{3}\%$  of the Aggregate Outstanding Amount of the Class A-1 Notes direct the sale of the Collateral on any date on which an Event of Default described in clause (ix) of the definition thereof has occurred and is continuing or an Event of Default consisting of a failure to pay the Class A-1 Swap Availability Fee or interest on the Class A-1 Notes when due has occurred and is continuing.

If any of the conditions above (the "Liquidation Conditions") to the liquidation of the Collateral is satisfied, the Trustee will liquidate the Collateral and terminate each Hedge Agreement and, on the sixth Business Day (the "Accelerated Maturity Date") following the Business Day (which shall be the Determination Date for such Accelerated Maturity Date) on which the Trustee notifies the Issuer, the Collateral Manager, each Hedge Counterparty, the Credit Default Swap Counterparty and each Rating Agency that such liquidation is completed, apply the proceeds of such liquidation in accordance with the Liquidation Priority of Payments. The Accelerated Maturity Date will be treated as a Quarterly Distribution Date, and distributions on such date will be made in accordance with the Priority of Payments.

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

Pursuant to the Indenture, as security for the payment by the Issuer of the compensation and expenses of the Trustee and any sums that the Trustee may be entitled to receive as indemnification by the Issuer, the Issuer will grant the Trustee a lien on the Collateral other than the security interest granted to the Synthetic Security Counterparty over the Synthetic Security Counterparty Account, 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 the Controlling Class may, prior to the time a judgment or decree for the payment of money due has been obtained by the Trustee, waive any past default on behalf of the holders of all the Notes and its consequences (including rescinding the acceleration of the Notes), except a default in the payment of the principal of any Note or in the payment of interest (including any Defaulted Interest or interest on Defaulted Interest) on the Notes, in respect of a provision of the Indenture that cannot be modified or amended without the waiver or consent of the holder of each outstanding Note affected thereby, or arising as a result of an Event of Default described in clause (vi) or clause (viii) of the definition of "Event of Default."

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

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

of the Controlling Class, the Trustee shall follow the instructions of the group representing the higher percentage of interest in the Aggregate Outstanding Amount of the Controlling Class.

In determining whether the holders of the requisite percentage of Notes or Preferred Securities have given any direction, notice, consent or waiver, (i) Notes or Preferred Securities owned by the Issuer, the Co-Issuer or any affiliate thereof shall be disregarded and deemed not to be outstanding and (ii) in relation to any assignment or termination of any of the express rights of the Collateral Manager under the Collateral Management Agreement or the Indenture (including the exercise of any right to remove the Collateral Manager or terminate the Collateral Management Agreement), or any amendment or other modification of the Collateral Management Agreement or the Indenture increasing the rights or decreasing the obligations of the Collateral Manager, Collateral Manager Securities shall be disregarded and deemed not to be outstanding; *provided* that the Collateral Manager and its affiliates will be entitled to vote Notes or Preferred Securities owned or controlled by them, or by accounts managed by them, with respect to all other matters.

#### Notices

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

#### Modification of the Indenture

With the consent of (w) 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 Holders of Preferred Securities (if materially and adversely affected thereby), the Collateral Manager, (x) each Hedge Counterparty (if such consent is required pursuant to the applicable Hedge Agreement), (y) the Class A-1 Swap Counterparty and (z) the Credit Default 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 Preferred Securities or the Hedge Counterparties, as the case may be, under the Indenture. Unless notified by holders of a majority in Aggregate Outstanding Amount of any Class of Notes or by a Majority-in-Interest of Holders of Preferred Securities that such Class of Notes or the Preferred Securities, as the case may be, will be materially and adversely affected by such change, the Trustee is entitled to receive and conclusively rely upon an officer's certificate of the Issuer (or of the Collateral Manager on behalf of the Issuer) or an opinion of counsel, provided by and at the expense of the Issuer, stating whether or not any Class of Notes or the Preferred Securities would be materially and adversely affected by such change. Such determination shall be conclusive and binding on all present and future holders of the Notes and the Holders of Preferred Securities. As long as any Class of the Notes is listed on the Irish Stock Exchange, the Issuer will notify the Company Announcements Office of the Irish Stock Exchange following any modification to the Indenture that affects any Class of the Notes that is listed on the Irish Stock Exchange.

Notwithstanding the foregoing, the Trustee may not enter into any such supplemental indenture (other than to conform the Indenture to the Offering Circular) without the consent of each holder of each outstanding Note of each Class adversely affected thereby, each Holder of Preferred Securities 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), the Credit Default Swap Counterparty and each Hedge Counterparty (if its consent is required pursuant to the applicable Hedge Agreement) and the Class A-1 Swap Counterparty if such supplemental indenture (i) changes the

Stated Maturity of the principal of or the due date of any installment of interest on any Note, reduces the principal amount thereof or the rate of interest, or the redemption price with respect thereto, changes the definition of Scheduled Preferred Security Redemption Date, changes the earliest date on which the Issuer may redeem any Note, changes the Priority of Payments so as to affect application of proceeds of any Collateral to the payment of principal of or interest on the Notes or (solely with respect to the Class A-1 Swap Counterparty) Class A-1 Swap Availability Fee or distributions on the Preferred Securities, changes any place where, or the coin or currency in which, any Note or the principal thereof or interest or (solely with respect to the Class A-1 Swap Counterparty) Class A-1 Swap Availability Fee 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 Scheduled Preferred Security Redemption Date, as the case may be (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 Preferred Securities is payable, (ii) reduces the percentage in Aggregate Outstanding Amount of holders of Notes of each Class or the percentage of holders of Preferred Securities (as applicable) whose consent is required for the authorization of any supplemental indenture or for any waiver of compliance with certain provisions of the Indenture or certain defaults thereunder or their consequences or to request that the Trustee preserve the Collateral pledged under the Indenture or rescind the Trustee's election to preserve the Collateral or to sell or liquidate the Collateral pursuant to the Indenture, (iii) materially impairs or materially adversely affects the Collateral pledged under the Indenture except as otherwise permitted thereby, (iv) permits the creation of any lien ranking prior to or on a parity with the lien created by the Indenture with respect to any part of the Collateral other than the security interest granted to the Synthetic Security Counterparty over the Synthetic Security Counterparty Account or terminates such lien on any property at any time subject thereto (other than in connection with the sale or exchange thereof in accordance with, or as otherwise permitted by, the Indenture) or deprives the holder of any Note of the security afforded by the lien created by the Indenture except, in each of the foregoing cases, as otherwise permitted by the Indenture, (v) modifies any of the provisions of the Indenture with respect to supplemental indentures requiring the consent of Noteholders except to increase the percentage of the Aggregate Outstanding Amount of holders of Notes of each Class or the percentage of holders of Preferred Securities (as applicable) whose consent is required for any action or to provide that other provisions of the Indenture cannot be modified or waived without the consent of the holder of each outstanding Note affected thereby, (vi) modifies the definition of the term "Outstanding," the definition of the term "Event of Default" or the subordination or priority of payments provisions of the Indenture, (vii) increases the permitted minimum denominations of any Class of Notes, (viii) modifies any of the provisions of the Indenture in such a manner as to affect directly the calculation of the amount of any payment of interest 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 Holders of Preferred Securities to the benefit of any provisions for the redemption of the Preferred Securities contained therein, or (ix) amends the "non-petition" or "limited recourse" provisions of the Indenture or the Notes. The Trustee may not enter into any supplemental indenture described in this paragraph unless the Rating Condition with respect to Standard & Poor's shall have been satisfied with respect to such supplemental indenture and the consent of each adversely affected holder of Notes, the Credit Default Swap Counterparty, the Collateral Manager and each Hedge Counterparty (to the extent required by the related Hedge Agreement) has been obtained with respect thereto.

The Co-Issuers and the Trustee may also enter into supplemental indentures without obtaining the consent of holders of any Notes, the Holders of Preferred Securities, the Credit Default Swap Counterparty, the Class A-1 Swap Counterparty or any Hedge Counterparty (except to the extent such consent is required under the applicable Hedge Agreement), in order to (i) evidence the succession of any person to the Issuer or the Co-Issuer and the assumption by such successor of the covenants in the Indenture and the Notes, (ii) add to the covenants of the Co-Issuers or the Trustee for the benefit of the holders of all of the Notes or to surrender any right or power conferred upon the Co-Issuers, (iii) convey, transfer, assign, mortgage or pledge any property to the Trustee for the benefit of the Secured Parties, (iv)

evidence and provide for the acceptance of appointment by a successor trustee and to add to or change any of the provisions of the Indenture as shall be necessary to facilitate the administration of the trusts under the Indenture by more than one Trustee, (v) correct or amplify the description of any property at any time subject to the lien created by the Indenture, or to better assure, convey and confirm unto the Trustee any property subject or required to be subject to the lien created by the Indenture (including, without limitation, any and all actions necessary or desirable as a result of changes in law or regulations) or to subject to the lien created by the Indenture any additional property, (vi) modify the restrictions on and procedures for resales and other transfers of the Notes to reflect any changes in applicable law or regulation (or the interpretation thereof) or in accordance with the USA PATRIOT Act, the Proceeds of Criminal Conduct Law (as amended) (enacted in the Cayman Islands), The Money Laundering Regulations (as amended) (enacted in the Cayman Islands) and any other similar applicable laws or regulations or to enable the Co-Issuers to rely upon any less restrictive exemption from registration under the Securities Act, the Investment Company Act or other applicable law or to remove restrictions on resale and transfer to the extent not required thereunder, (vii) correct any inconsistency, defect or ambiguity in the Indenture or correct, modify or supplement any provision which is inconsistent with any rating agency methodology, (viii) obtain ratings on one or more Classes of the Notes from any rating agency, (ix) accommodate the issuance of any Class of Notes or Preferred Securities 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 Preferred Securities on any exchange or the issuance of additional Preferred Securities, (x) make administrative changes as the Co-Issuers deem appropriate and that do not materially and adversely affect the interests of any Noteholder, Holder of Preferred Securities, the Credit Default Swap Counterparty or Hedge Counterparty, (xi) avoid imposition of tax on the net income of the Issuer or the Co-Issuer or of withholding tax on any payment to the Issuer or the Co-Issuer or to avoid the Issuer or the Co-Issuer being required to register as an investment company under the Investment Company Act or avoid the application of the German Investment Tax Act to the Issuer or to any of the Securities, (xii) accommodate the issuance of any Class of Notes as Definitive Notes, (xiii) to correct any non-material error in any provision of the Indenture upon receipt by the Trustee of written direction from the Issuer describing in reasonable detail such error and the modification necessary to correct such error, (xiv) conform the Indenture to this Offering Circular, (xv) make any change required in order to permit or maintain a listing on any exchange, (xvi) correct any manifest error in the Indenture, (xvii) amend or otherwise modify (a) if the Rating Condition with respect to Moody's is satisfied, (1) the matrix attached as Part I of Schedule A hereto, (2) the Moody's Minimum Weighted Average Recovery Rate Test, the Moody's Maximum Rating Distribution Test or the Moody's Asset Correlation Test or (3) any reference in the Indenture to "Moody's Rating" or a rating assigned by Moody's or (b) if the Rating Condition with respect to Standard & Poor's is satisfied, the matrix attached as Part II of Schedule A hereto or the Standard & Poor's Minimum Recovery Rate Test or any reference in the Indenture to "Standard & Poor's Rating" or a rating assigned by Standard & Poor's; (xviii) comply with any Proposed Plan; (xix) accommodate, modify or amend existing and/or replacement Hedge Agreements or enter into one or more additional Hedge Agreements or replacements therefor; (xx) accommodate a CDS Replacement; (xxi) accommodate the replacement of the Class A-1 Swap or a TRS Replacement; (xxii) change the procedures for implementing the Auction Call Redemption, Optional Redemption or Tax Redemption (but without changing the Redemption Price or the earliest date on which such a redemption may occur), including deadlines, in each case, at the direction of the Collateral Manager; (xxiii) to give effect to any financing arrangements (an "Alternative Arrangement") entered into by the Issuer (which may be documented by a Master Agreement or may involve the issuance of debt securities or other instruments by the Issuer) following a failure by the Class A-1 Swap Counterparty to perform its obligations under the Class A-1 Swap that (1) have the economic effect of replacing such holder by providing liquidity to the Issuer in order to enable it to satisfy its obligations under, and to terminate, assign or novate (as applicable), Credit Default Swaps and (2) will not result in any reduction to amounts that would otherwise be payable or distributed to any of the Secured Parties or the Holders of Preferred Securities under this



Indenture if such failure had not occurred; or (xxiv) to facilitate the Issuer's entry into the Replacement Credit Linked Note.

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

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

The Issuer may not enter into any supplemental indenture without first obtaining the consent of the Credit Default Swap Counterparty and the Class A-1 Swap Counterparty.

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

The Issuer may not enter into a supplemental indenture which affects the amount or timing of deposits to or withdrawals from the CDS Reserve Account or which adversely affects the Total Return Swap Counterparty unless the Total Return Swap Counterparty has consented thereto.

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 Preferred Security Paying Agent, the Credit Default Swap Counterparty, each Hedge Counterparty, the Paying Agent in Ireland (if and for so long as any Class of Notes is listed thereon) and each Rating Agency (so long as any Class of Notes is outstanding) a copy thereof.

#### Modification of Certain Other Documents

Prior to entering into any amendment to or termination of the Account Control Agreement, the Collateral Management Agreement, the Collateral Administration Agreement, the Class A-1 Swap, the Administration Agreement or any Hedge Agreement, the Issuer is required by the Indenture (i) to notify the Rating Agencies of such amendment or termination and (ii) to obtain the written consent of the

Collateral Manager, the Credit Default Swap Counterparty and the Class A-1 Swap Counterparty to such amendment or termination. Prior to granting any waiver in respect of any of the foregoing agreements, the Issuer is required to provide each Rating Agency, the Collateral Manager, the Credit Default Swap Counterparty, the Class A-1 Swap Counterparty, each Hedge Counterparty and the Trustee with written notice of such waiver. The amendment to and waiver of provisions of the Collateral Management Agreement are also subject to additional restrictions as described herein under "The Collateral Management Agreement." The Credit Default Swap Counterparty and certain Synthetic Security Counterparties, each Hedge Counterparty, the Collateral Manager and each Holder of Preferred Securities will be express third party beneficiaries of the Indenture.

#### Consolidation, Merger or Transfer of Assets

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

#### Petitions for Bankruptcy

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

#### Acts of Noteholders or Holders of Preferred Securities

In determining whether the holders of the requisite percentage of Notes or Preferred Securities have given any direction, notice, consent or waiver, (i) prior to the Swap Period Termination Date, the Aggregate Outstanding Amount of Class A-1 Notes shall be deemed to include the Aggregate Undrawn Amount of such Notes, (ii) Notes or Preferred Securities owned by the Issuer, the Co-Issuer or any affiliate thereof shall be disregarded and deemed not to be outstanding, (iii) the Class A Preferred Securities and Class B Preferred Securities will vote as a single class for the purposes of giving any direction, notice, consent or waiver under the Indenture, the Collateral Management Agreement and the Preferred Security Paying Agency Agreement; *provided* that the Class A Preferred Securities and Class B Preferred Securities will vote as a separate class for purposes of any amendment to the Preferred Security Paying Agency Agreement that amends or modifies the Preferred Security Distribution Priority or the following defined terms: "Class A Preferred Security Return Amount," "Remaining Class A Balance," "Prior Period Accrued Amount" or the "Class A Distribution Amount" and (iv) 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, Collateral Manager Securities shall be disregarded and deemed not to be outstanding; *provided* that the Collateral Manager and its affiliates will be entitled to vote Notes or Preferred Securities owned or controlled by them, or by accounts managed by them, with respect to all other matters.

Notwithstanding anything to the contrary contained in the Indenture, with respect to any Noteholder which has notified the Trustee in writing that pursuant to such Noteholder's organizational documents or other documents governing such Noteholder's actions, such Noteholder is not permitted to take any affirmative action approving, rejecting or otherwise acting upon any Issuer request including, but

not limited to, a request for the consent of such Noteholder to a proposed amendment or waiver pursuant to the Indenture, the failure by such Noteholder to consent to or reject any such requested action will be deemed a consent by such Noteholder to the requested action.

#### Satisfaction and Discharge of Indenture

The Indenture will be discharged with respect to the Collateral upon delivery to the Trustee for cancellation of all of the Notes, or, subject to certain limitations, upon deposit with the Trustee of funds sufficient for the payment or redemption of the Notes and the payment by the Co-Issuers of all other amounts due under the Notes, the Indenture, the Collateral Administration Agreement, the Class A-1 Swap, the Administration Agreement, each Hedge Agreement and the Collateral Management Agreement.

#### Trustee

JPMorgan Chase 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 Quarterly Distribution Date), which lien the Trustee is entitled to exercise only under certain circumstances. In the Indenture, the Trustee will agree not to cause or join in the filing of a petition for winding up or a petition in bankruptcy against the Co-Issuers for nonpayment to the Trustee of amounts payable thereunder until at least one year and one day, or if longer, the applicable preference period (*plus* one day) then in effect, after the payment in full of all of the Notes; *provided, however*, it is entitled to file proofs of claim in connection with such proceeding. Pursuant to the Indenture, (i) the Trustee may resign at any time by providing 30 days' prior written notice to the Co-Issuers, the Noteholders, the Hedge Counterparties, each Rating Agency, the Collateral Manager and the Preferred Security Paying Agent, and (ii) the Trustee may be removed at any time by holders of at least 66<sup>2</sup>/<sub>3</sub>% of the Aggregate Outstanding Amount of the Notes or at any time on 10 days' prior written notice when an Event of Default shall have occurred and be continuing by holders of at least 66<sup>2</sup>/<sub>3</sub>% of the Aggregate Outstanding Amount of the Controlling Class. However, no resignation or removal of the Trustee will become effective until the acceptance of appointment by a successor Trustee pursuant to the terms of the Indenture. If the Trustee shall resign or be removed, the Trustee shall also resign as Paying Agent, Calculation Agent, Note Registrar and any other capacity in which JPMorgan Chase Bank, National Association is then acting pursuant to the Indenture, the Preferred Security Paying Agency Agreement, the Collateral Administration Agreement, the Account Control Agreement and each Class A-1 Swap Prefunding Account Control Agreement.

JPMorgan Chase & Co., an affiliate of the Trustee, has entered into an agreement with The Bank of New York Company, Inc. pursuant to which JPMorgan Chase & Co. intends to exchange select portions of its corporate trust business, including municipal, corporate and structured finance trusteeships (including this trusteeship), for the consumer, small-business and middle-market banking businesses of The Bank of New York Company, Inc. This transaction has been approved by both companies' boards of

directors and is subject to regulatory approvals. It is expected to close in the late third quarter or fourth quarter of 2006.

#### The Collateral Administration Agreement

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

#### Tax Characterization

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

#### Governing Law

The Notes, the Indenture, the Collateral Management Agreement, the Collateral Administration Agreement, the Preferred Security Paying Agency Agreement, the Class A-1 Swap, each Hedge Agreement and the Purchase Agreement will be governed by, and construed in accordance with, the laws of the State of New York. The Issuer Charter, the Preferred Securities and the Administration Agreement will be governed by, and construed in accordance with, the laws of the Cayman Islands.

## DESCRIPTION OF THE PREFERRED SECURITIES

The Preferred Securities will be issued pursuant to the Issuer Charter and will be subscribed for in accordance with the terms of the Investor Application Forms for Preferred Securities. The following summary describes certain provisions of the Preferred Securities, the Issuer Charter and the Preferred Security Paying Agency Agreement. This summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the Issuer Charter and the Preferred Security Paying Agency Agreement. After the Closing Date, copies of the Issuer Charter and the Preferred Security Paying Agency Agreement may be obtained by prospective investors upon request in writing to the Preferred Security Paying Agent at 600 Travis Street, 50th Floor, JPMorgan Chase Tower, Houston, Texas 77002, Attention: Worldwide Securities Services - Octans I CDO Ltd.

### Status

The Issuer is authorized to issue two classes of Preferred Securities, the Class A Preferred Securities with an aggregate Notional Amount of U.S. \$64,000,000 and the Class B Preferred Securities with an aggregate Notional Amount of U.S. \$30,000,000. The Preferred Securities are participating securities in the capital of the Issuer and will rank *pari passu* with respect to distributions. The obligations of the Issuer under the Preferred Securities are payable solely from amounts distributed to the Holders of Preferred Securities in accordance with the Priority of Payments, and, following realization of the Collateral under the Indenture, any claims of the Holders of Preferred Securities against the Issuer will be extinguished. The Preferred Securities do not have any principal amount, and the Notional Amount is used solely for certain calculations hereunder and under the Indenture and the Preferred Security Paying Agency Agreement. Under Cayman Islands law the Preferred Securities are preferred shares and any distributions thereon are dividends.

### Distributions

On each Quarterly Distribution Date, to the extent funds are available therefor, Interest Proceeds will be released from the lien of the Indenture for payment to the Preferred Security 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, including the Class F/G Special Redemption. Any Interest Proceeds permitted to be released from the lien of the Indenture and paid to the Preferred Security Paying Agent will be distributed to the Holders of Preferred Securities on such Quarterly Distribution Date in accordance with the Preferred Security Distribution Priority. 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 Preferred Securities. See "Description of the Notes—Interest Proceeds" and "—Principal Proceeds" and "Security for the Notes."

### Preferred Security Distribution Priority

Interest Proceeds and Principal Proceeds will be distributed to the Holders of Preferred Securities as described below (the "Preferred Security Distribution Priority"):

(I) On each Quarterly Distribution Date that is not a Redemption Date, Scheduled Preferred Security Redemption Date or the Accelerated Maturity Date, Interest Proceeds distributed by the Issuer to the Preferred Security Paying Agent for distribution to the Holders of Preferred Securities, will be distributed as follows:

- (i) *first*, the Class A Preferred Security Return Amount and any Prior Period Accrued Amount will be distributed to the holders of the Class A Preferred Securities, *pro rata* in accordance with the number of Preferred Securities held by each holder;
- (ii) *second*, the Class A Distribution Amount will be distributed to the holders of the Class A Preferred Securities, *pro rata* in accordance with the number of Preferred Securities held by each holder;
- (iii) *third*, the Unpaid Class A Distribution Amount will be distributed to the holders of the Class A Preferred Securities, *pro rata* in accordance with the number of Preferred Securities held by each holder; and
- (iv) *fourth*, all remaining amounts will be distributed to the holders of the Class B Preferred Securities, *pro rata* in accordance with the number of Preferred Securities held by each such holder.

(II) on the Redemption Date, the Accelerated Maturity Date or the Scheduled Preferred Security Redemption Date, all Principal Proceeds and Interest Proceeds, and on any other Quarterly Distribution Date on which Principal Proceeds are distributed, all Principal Proceeds distributed by the Issuer to the Preferred Security Paying Agent, for distribution to the Holders of Preferred Securities, will be distributed as follows:

- (i) *first*, the Class A Preferred Security Return Amount and any Prior Period Accrued Amount will be distributed to the holders of the Class A Preferred Securities, *pro rata* in accordance with the number of Preferred Securities held by each holder;
- (ii) *second*, the Remaining Class A Balance will be distributed to the holders of the Class A Preferred Securities, *pro rata* in accordance with the number of Class A Preferred Securities held by each holder; and
- (iii) *third*, all remaining amounts will be distributed to the Class B Preferred Securities, *pro rata* in accordance with the number of Preferred Securities held by each holder.

The failure by the Issuer to pay the Class A Preferred Security Return Amount, the Prior Period Accrued Amount or the Class A Distribution Amount on any Quarterly Distribution Date or to pay the Remaining Class A Balance on the Redemption Date, Accelerated Maturity Date or the Stated Maturity will not be an Event of Default. All distributions on the Preferred Securities will be subject to the Priority of Payments and the limitations under Cayman Islands law described herein.

Subject to provisions of Cayman Islands law and the Preferred Security 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 Preferred Security Paying Agent on each Quarterly Distribution Date for distribution to the Holders of Preferred Securities on such Quarterly 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 security premium account (which includes subscription monies in excess of the par value of each security less any

subscription or placement fees paid); *provided* that the Issuer will be solvent immediately following the date of such payment.

Distributions on any Preferred Security will be made to the person in whose name such Preferred Security is registered fifteen days prior to the applicable Quarterly 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 Preferred Security Register in accordance with wire transfer instructions received from such holder by the Preferred Security Paying Agent on or before the Record Date or, if no wire transfer instructions are received by the Preferred Security 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 Preferred Securities at the office of the Preferred Security Registrar or other office designated by the Preferred Security Paying Agent.

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

If a Rating Confirmation Failure occurs, funds that would otherwise be paid to the Preferred Security Paying Agent for distribution to the Holders of Preferred Securities (subject to the payment of certain other amounts prior thereto) will be used to redeem the Notes to the extent necessary (after the application of Uninvested Proceeds for such purpose) to obtain a Rating Confirmation from each Rating Agency. Pursuant to a Class F/G Special Redemption, on each Quarterly Distribution Date from and including the Quarterly Distribution Date in January 2007, 15% of any Interest Proceeds that may otherwise have been available to be released from the lien of the Indenture and paid to the Preferred Security Paying Agent (or applied to pay the Subordinated Management Fee) will be applied to pay principal of the Class F Notes and the Class G Notes. See "Description of the Notes—Priority of Payments—Interest Proceeds."

### **Redemption of the Preferred Securities**

The Scheduled Preferred Security Redemption Date is the Quarterly Distribution Date in October 2041.

On any Quarterly Distribution Date on or after the Quarterly Distribution Date on which the Notes have been paid in full, the Preferred Securities may be redeemed (in whole but not in part) in accordance with the Preferred Security Distribution Priority at the direction of a Majority-in-Interest of Holders of Preferred Securities (with the Class A Preferred Securities and Class B Preferred Securities voting as a single class) given not less than 15 Business Days (but not more than 90 days) prior to such Quarterly Distribution Date, at a redemption price equal to the amount distributed in accordance with the Preferred Security Distribution Priority.

The Preferred Securities shall be redeemed (without any action of the Holders of Preferred Securities) upon a Tax Redemption of the Notes.

The Class A Preferred Securities shall be redeemed by the Issuer for a redemption price of U.S.\$1.00 per security on any Quarterly Distribution Date on which the Remaining Class A Balance and the Prior Period Accrued Amount are reduced to zero.

## The Issuer Charter

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

### Notices

Notices to the Holders of Preferred Securities will be given by first class mail, postage prepaid, to the registered holders of the Preferred Securities at their address appearing in the Preferred Security Register.

### Voting Rights

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

*Redemption of the Preferred Securities:* On any Quarterly Distribution Date on or after the Quarterly Distribution Date on which the Notes have been paid in full, the Preferred Securities may be redeemed (in whole but not in part) at the direction of a Majority-in-Interest of Holders of Preferred Securities and the Preferred Securities shall be redeemed (without any action of the Holders of Preferred Securities) upon a Tax Redemption of the Notes, as described above under "—Redemption of the Preferred Securities."

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

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

*Preferred Security Paying Agency Agreement:* The Issuer is not permitted to consent to any amendment of the Preferred Security Paying Agency Agreement without the consent of Holders of Preferred Securities whose Voting Percentages equal 100% of the Voting Percentages of all Holders of Preferred Securities 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 Preferred Securities, (ii) reduce the Voting Percentage of Holders of Preferred Securities required to consent to any amendment to the Preferred Security Paying Agency Agreement that requires the consent of the Holders of Preferred Securities, or (iii) increase the minimum number of Preferred Securities required to be held at any time by a single Holder of Preferred Securities.



The Preferred Securities shall vote as a single class on all matters, except on any amendment which amends or modifies the Preferred Security Distribution Priority or the following defined terms: "Class A Preferred Security Return Amount," "Remaining Class A Balance," "Prior Period Accrued Amount" or the "Class A Distribution Amount."

#### Dissolution: Liquidating Distributions

The Issuer will be wound up on the earliest to occur of (i) at any time on or after the date that is one year and two days after the Stated Maturity of the Notes, upon the directors' resolution to wind up the Issuer, (ii) at any time after the sale or other disposition of all of the Issuer's assets, upon the directors' resolution to wind up the Issuer, (iii) at any time after the Notes are paid in full, upon the directors' resolution to wind up the Issuer and (iv) on the date of a winding up pursuant to the provisions of or as contemplated by The Companies Law (2004 Revision) of the Cayman Islands as then in effect. The directors of the Issuer currently intend, in the event that the Preferred Securities are not redeemed at the option of a Majority-in-Interest of Holders of Preferred Securities 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 Holders of Preferred Securities. However, there can be no assurance that the Notes will be repaid before their Stated Maturity. See "Maturity, Prepayment and Yield Considerations" and "Risk Factors—Average Life of the Notes and Prepayment Considerations."

On the passing of a resolution to wind up the Issuer, its affairs will be wound up and its assets sold or distributed. Subject to the terms of the Indenture, the Preferred Security Documents and Cayman Islands law, the assets of the Issuer shall be applied in the following order of priority:

- (1) *first*, to pay the costs and expenses of the winding up, liquidation and termination of the Issuer;
- (2) *second*, to creditors of the Issuer, in the order of priority provided by law;
- (3) *third*, to establish reserves adequate to meet any and all contingent, unliquidated liabilities or obligations of the Issuer; *provided* that at the expiration of a period not exceeding three years after the final liquidation distribution, the balance of such reserves remaining after the payment of such contingencies or liabilities shall be distributed in the manner described herein;
- (4) *fourth*, to pay the holders of the ordinary shares the nominal amount paid up thereon and the sum of U.S.\$1.00 per ordinary share; and
- (5) *fifth*, to pay to the Holders of Preferred Securities the balance remaining in accordance with the Preferred Security Distribution Priority.

#### Consolidation, Merger or Transfer of Assets

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

## Petitions for Bankruptcy

The Preferred Security Paying Agent will agree in the Preferred Security Paying Agency Agreement that it will not cause or join in the filing of a winding-up petition or a petition in bankruptcy against the Issuer before one year and one day have elapsed since the payment in full of the Notes or, if longer, the applicable preference period (*plus* one day) then in effect.

## Governing Law

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

## Form, Registration and Transfer

### General

(i) Preferred Securities that are sold or transferred outside the United States to persons that are not U.S. Persons ("Regulation S Preferred Securities") will be represented by either (i) one or more permanent global Preferred Security certificates (each, a "Regulation S Global Preferred Security") in fully registered form without interest coupons deposited with the Preferred Security Paying Agent as custodian for, and registered in the name of, DTC (or its nominee) and deposited with or on behalf of DTC initially for the accounts of Euroclear, and/or Clearstream, Luxembourg or (ii) in the limited circumstances described herein, Preferred Security certificates in definitive, fully registered 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) ("Regulation S Definitive Preferred Securities"). Interests in the Regulation S Global Preferred Securities will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and Indirect Participants (including Euroclear and Clearstream, Luxembourg). By acquisition of a Regulation S Preferred Security, any purchaser thereof will be required to represent and warrant in a transfer certificate (in the case of the Regulation S Definitive Preferred Securities) or be deemed to represent and warrant (in the case of the Regulation S Global Preferred Securities) that (a) it is not a U.S. Person and is purchasing such Regulation S Preferred Security 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 Preferred Security, it will transfer such Regulation S Preferred Security 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 Preferred Security. Preferred Securities that are sold or transferred to a U.S. Person or in the United States in reliance upon the exemption from the registration requirements of the Securities Act provided by Section 4(2) thereof will be represented by certificates ("Restricted Definitive Preferred Securities"; the Restricted Definitive Preferred Securities and Regulation S Definitive Preferred Securities are collectively referred to as the "Definitive Preferred Securities") in definitive, fully registered form, registered in the name of the legal and beneficial owner thereof. Any purchaser of Preferred Securities issued on the Closing Date, with the consent of the Issuer, in a number less than the minimum trading lot will be required to hold Regulation S Definitive Preferred Securities. Interests in a Regulation S Preferred Security will be exchangeable or transferable, as the case may be, for a Regulation S Definitive Preferred Security if (a) DTC notifies the Issuer that it is unwilling or unable to continue as depository for such Regulation S Definitive Preferred Security, (b) DTC ceases to be a "Clearing Agency" registered under the Exchange Act, and a successor depository is not appointed by the Issuer within 90 days, (c) the transferee of an interest in a Regulation S Global Preferred Security is required by law to take physical delivery of securities in definitive form, (d)

the transferee is unable to pledge its interest in a Regulation S Global Preferred Security or (e) the Issuer otherwise consents to such exchange or transfer for a Definitive Preferred Security.

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

(iii) JPMorgan Chase Bank, National Association (or any successor thereto) will be appointed as transfer agent with respect to the Preferred Securities (the "Preferred Security Paying Agent").

(iv) The Preferred Securities are not issuable in bearer form.

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

(vi) The Issuer is authorized to issue 94,000 Preferred Securities, par value U.S.\$0.01 per security.

(vii) The minimum number of Preferred Securities to be issued to an investor will initially be 250, or integral multiples of 1 security in excess thereof; *provided* that the Issuer may authorize Preferred Securities to be issued in a minimum number of 100 Preferred Securities.

#### Transfer and Exchange

(i) Transfers by a holder of a beneficial interest in a Regulation S Global Preferred Security or a Regulation S Definitive Preferred Security to a transferee who takes delivery of a Restricted Definitive Preferred Security will be made (a) in the case of a transfer by a holder of a beneficial interest in a Regulation S Global Preferred Security, only in accordance with the Applicable Procedures and (b) in either case, upon receipt by the Preferred Security Registrar of written certifications from each of the transferor and the transferee of such beneficial interest in the form provided in the Preferred Security Paying Agency Agreement to the effect that, among other things, such transfer is being made (1) to a transferee that (A) is both (I) either (x) 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 (y) an Accredited Investor entitled to take delivery of such Restricted Definitive Preferred Security pursuant to another exemption from the registration requirements of the Securities Act (subject to the delivery of such certifications, legal opinions or other information as the Issuer may reasonably require to confirm that such transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act) and (II) a Qualified Purchaser and (B) is not a Flow-Through Investment Vehicle (other than a Qualifying Investment Vehicle); and (2) in accordance with all other applicable securities laws of any relevant jurisdiction.

The holder of a beneficial interest in a Regulation S Global Preferred Security 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 Preferred Security; *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 deemed representation that it is not a Benefit Plan Investor or a Controlling Person.

Transfers or exchanges by a holder of a Definitive Preferred Security to a transferee who takes delivery of such interest in the form of a beneficial interest in a Regulation S Global Preferred Security will be made only (a) in accordance with the Applicable Procedures and (b) upon receipt by the Preferred Security Registrar of written certification from each of the transferor and transferee in the form provided in the Preferred Security 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 nor 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 Preferred Securities may be exchanged or transferred in whole or in part in numbers not less than the applicable minimum trading lot by surrendering such Definitive Preferred Securities at the office of the Preferred Security Registrar or the office designated by the Preferred Security 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 Preferred Security Paying Agency Agreement to the effect that, among other things, the transferee (i) is (x) a Qualified Institutional Buyer or (y) an Accredited Investor entitled to take delivery of such Restricted Definitive Preferred Security 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) is a Qualified Purchaser, (iii) is not a Flow-Through Investment Vehicle (other than a Qualifying Investment Vehicle) and (iv) except as otherwise provided herein with respect to Restricted Definitive Preferred Securities, is not a Benefit Plan Investor or a Controlling Person. With respect to any transfer of a portion of Definitive Preferred Securities, the transferor will be entitled to receive new Restricted Definitive Preferred Securities or Regulation S Definitive Preferred Securities, as the case may be, representing the liquidation amount retained by the transferor after giving effect to such transfer. Definitive Preferred Securities issued upon any such exchange or transfer (whether in whole or in part) will be made available at the office of the Preferred Security Transfer Agent.

Definitive Preferred Securities 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 Preferred Securities surrendered upon exchange or registration of transfer.

(ii) No Reg Y Institution may transfer any Preferred Securities 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 Preferred Securities 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 Preferred Securities (including all options, warrants and similar rights exercisable or convertible into Preferred Securities) or (e) as otherwise permitted by applicable U.S. Federal banking law and regulations. See "Transfer Restrictions."

(iii) No Regulation S Preferred Security may be transferred to a Benefit Plan Investor or a Controlling Person, and (ii) no Restricted Definitive Preferred Security may be transferred to a Benefit Plan Investor or a Controlling Person unless, after giving effect to such transfer, less than 25% (or such greater percentage as may be specified in regulations promulgated by the U.S. Department of Labor) of the class of such Preferred Securities would be held by Benefit Plan Investors (determined after disregarding the Preferred Securities held by Controlling Persons). None of the Issuer, the Preferred

Security Paying Agent or the Preferred Security Registrar will recognize any such transfer. See "Transfer Restrictions."

The Preferred Security Paying Agency Agreement provides that if, notwithstanding the restrictions on transfer contained therein, the Issuer determines that (i) any beneficial owner or holder of a Regulation S Preferred Security is a Benefit Plan Investor or a Controlling Person, (ii) an Original Purchaser of a Preferred Security or an interest therein or a subsequent transferee of a Restricted Definitive Preferred Security that is a Benefit Plan Investor or a Controlling Person did not disclose in an Investor Application Form, or a transfer certificate in the form attached to the Preferred Security Paying Agency Agreement delivered to the Issuer at the time of its acquisition of such Preferred Security or beneficial interest in such Preferred Security that it is a Benefit Plan Investor or a Controlling Person, (iii) subsequent to the purchase of a Preferred Security, any beneficial owner becomes a Benefit Plan Investor (including for this purpose an insurance company general account any of the underlying assets of which constitutes "plan assets" under Section 401(c) of ERISA or a wholly owned subsidiary of such general account) or a Controlling Person or (iv) as a result of a transfer of a Preferred Security or interest therein, 25% (or such greater percentage as may be specified in regulations promulgated by the U.S. Department of Labor) or more of the class of such Preferred Securities are held by Benefit Plan Investors (determined after disregarding the Preferred Securities held by Controlling Persons), then the Issuer (or the Collateral Manager on its behalf) shall require, by notice to such beneficial owner, that such beneficial owner sell all of its right, title and interest in or to such Preferred Securities (or interest therein) to a Person that is (1) in the case of a person holding Restricted Definitive Preferred Securities (A) (x) a Qualified Institutional Buyer or (y) an Accredited Investor entitled to take delivery of such Restricted Definitive Preferred Security 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 nor a Controlling Person or (2) in the case of a person holding its interest through a Regulation S Global Preferred Security or a person holding Regulation S Definitive Preferred Securities, neither (A) a U.S. Person nor (B) a Benefit Plan Investor or a Controlling Person, with such sale to be effected within 30 days after notice of such sale requirement is given. If such beneficial owner or holder fails to effect the transfer required within such 30-day period, (I) upon written direction from the Issuer (or the Collateral Manager on behalf of the Issuer), the Preferred Security Paying Agent (on behalf of and at the expense of the Issuer) shall cause such beneficial owner's or holder's interest in such Preferred Securities to be transferred in a commercially reasonable sale (conducted by an investment bank selected by the Preferred Security Paying Agent and approved by the Issuer in accordance with Section 9-610(b) of the Uniform Commercial Code as in effect in the State of New York as applied to securities that are sold on a recognized market or that may decline speedily in value) to a person that certifies to the Preferred Security Paying Agent, Preferred Security Registrar, the Issuer and the Collateral Manager, in connection with such transfer, that such person is (A) in the case of Restricted Definitive Preferred Securities (x) (i) a Qualified Institutional Buyer or (ii) an Accredited Investor entitled to take delivery of such Restricted Definitive Preferred Security 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 Preferred Securities or Regulation S Definitive Preferred Securities, not a U.S. Person and (C) in all cases, not a Benefit Plan Investor nor a Controlling Person and (II) pending such transfer, no payments will be made on such Preferred Securities from the date notice of the sale requirement is sent to the date on which such Preferred Securities are sold and such Preferred Securities shall be deemed not to be outstanding for the purposes of any vote, consent or direction of the Holders of Preferred Securities 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, any increase in the percentage of "plan assets" above the percentage specified in the questionnaire submitted with the relevant Investor Application Form, or a transfer certificate in the form attached to the Preferred Security Paying Agency Agreement.

(iv) No service charge will be made for exchange or registration of transfer of any Preferred Security but the Preferred Security Paying Agent (on behalf of the Preferred Security 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 Preferred Security Paying Agent will effect exchanges and transfers of Preferred Securities. All Preferred Securities issued upon any exchange or registration of transfer are entitled to the same benefits as the Preferred Securities surrendered upon exchange or registration of transfer.

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

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

#### Definitive Regulation S Preferred Securities

Interests in a Regulation S Preferred Security represented by a Regulation S Global Preferred Security will be exchangeable or transferable, as the case may be, for a Regulation S Preferred Security that is a Definitive Preferred Security if (a) DTC notifies the Issuer that it is unwilling or unable to continue as depository for such Preferred Security, (b) DTC ceases to be a "Clearing Agency" registered under the Exchange Act, and a successor depository is not appointed by the Issuer within 90 days, (c) the transferee of an interest in a Regulation S Global Preferred Security is required by law to take physical delivery of securities in definitive form, (d) the transferee is unable to pledge its interest in a Regulation S Global Preferred Security or (e) the Issuer otherwise consents to such exchange or transfer for a Definitive Preferred Security. Upon the occurrence of any of the events described in the preceding sentence, the Issuer will cause Definitive Preferred Securities bearing an appropriate legend (a "Legend") regarding restrictions on transfer to be delivered. Upon the transfer, exchange or replacement of Definitive Preferred Securities bearing a Legend, or upon specific request for removal of a Legend on a Definitive Preferred Security, the Issuer shall deliver through the Preferred Security Paying Agent to the holder and the transferee, as applicable, one or more Definitive Preferred Securities in certificated form corresponding to the principal amount of Definitive Preferred Securities 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 Preferred Securities will be exchangeable or transferable for interests in other Definitive Preferred Securities as described above.

## **No Gross-Up**

All distributions of dividends and return of capital on the Preferred Securities 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 Preferred Security Paying Agent to make such deduction or withholding and will pay any such withholding taxes to the applicable governmental authority, but will not be obligated to pay any additional amounts in respect of such withholding or deduction.

## **Tax Characterization**

The Issuer intends to treat the Preferred Securities as equity interests in the Issuer for U.S. Federal, state and local income tax purposes. The Preferred Security Issuing and Paying Agency Agreement will provide that each registered holder and beneficial owner of Preferred Securities, by accepting such securities, agrees to such treatment, to report all income (or loss) in accordance with such characterization and not to take any action inconsistent with such treatment unless otherwise required by any taxing authority under applicable law.

## USE OF PROCEEDS

The gross proceeds which the Issuer expects to receive from the issuance and sale of the Securities will be approximately U.S.\$529,000,000 on the Closing Date and U.S.\$1,504,000,000 (after giving effect to the maximum amount of the Class A-1 Fundings under the Class A-1 Swap). The net proceeds which the Issuer expects to receive from the issuance and sale of the Securities, together with the Up Front Payment, are expected to be approximately U.S.\$522,000,000 on the Closing Date and U.S.\$1,497,000,000 after giving effect to the maximum amount of the Class A-1 Fundings under the Class A-1 Swap, which reflects the payment from such gross proceeds of organizational and structuring fees and expenses of the Co-Issuers (including Closing Costs) and the initial deposits into the Expense Account and the Reserve Account. It is expected that the total expenses relating to the application for admission of the Notes to the official list of the Irish Stock Exchange and to trading on its regulated market will be approximately U.S.\$15,000. Such net proceeds will be used by the Issuer to make a deposit of U.S.\$375,000,000 to the CDS Reserve Account on the Closing Date and to Acquire a portfolio of interests in (a) certain Cash Collateral Debt Securities and (b) Synthetic Securities. On the Closing Date, the Issuer will have purchased (or entered into agreements to purchase for settlement following the Closing Date) Collateral Debt Securities having an Aggregate Principal Balance of not less than U.S.\$1,350,000,000 of which approximately U.S.\$1,290,000,000 is expected to consist of the notional amount of Credit Default Swaps. The Issuer expects that, no later than December 26, 2006, it will have purchased (or committed to purchase) Collateral Debt Securities (assuming settlement in accordance with customary settlement procedures in the relevant markets on such day of all agreements entered into by the Issuer to Acquire Collateral Debt Securities and enter into Credit Default Swaps and other Synthetic Securities scheduled to settle on or following such day) having an Aggregate Principal Balance of approximately U.S.\$1,500,000,000, although the Aggregate Principal Balance may be less than such amount on such date due to principal payments on the Collateral Debt Securities. Any such proceeds not invested in Collateral Debt Securities or deposited into the Expense Account, the CDS Reserve Account or the Reserve Account will be deposited by the Trustee in the Uninvested Proceeds Account and invested in Eligible Investments pending the use of such proceeds for the purchase of Collateral Debt Securities during the Ramp-Up Period, as described herein, and, in certain limited circumstances described herein, for the payment of the Notes or for distributions on the Preferred Securities. See "Security for the Notes."



## RATINGS OF THE NOTES

It is a condition to the issuance of the Notes that the Class A-1 Notes be rated "Aaa" by Moody's and "AAA" by Standard & Poor's, that the Class A-2A Notes be rated "Aaa" by Moody's and "AAA" by Standard & Poor's, that the Class A-2B Notes be rated "Aaa" by Moody's and "AAA" by Standard & Poor's, that the Class B Notes be rated at least "Aa2" by Moody's and at least "AA" by Standard & Poor's, that the Class C Notes be rated at least "Aa3" by Moody's and at least "AA-" by Standard & Poor's, that the Class D Notes be rated at least "A2" by Moody's and at least "A" by Standard & Poor's, that the Class E Notes be rated at least "A3" by Moody's and at least "A-" by Standard & Poor's, that the Class F Notes be rated at least "Baa2" by Moody's and at least "BBB" by Standard & Poor's and that the Class G Notes be rated at least "Baa3" by Moody's and at least "BBB-" by Standard & Poor's. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision at any time.

Following the Ramp-Up Completion Date, the Issuer will request that each Rating Agency confirm to the Issuer that it has not reduced or withdrawn the rating assigned by it on the Closing Date to any Class of Notes (a "Rating Confirmation"); *provided* that, if the Ramp-Up Completion Date occurs on the Closing Date (as shall be evidenced by the schedule of Collateral Debt Securities and an accountant's report delivered on the Closing Date pursuant to the Indenture), then (i) the Issuer will not request a Rating Confirmation, (ii) the initial assignment by Moody's and Standard & Poor's of their ratings to the Notes on the Closing Date will constitute a Rating Confirmation, and (iii) no further action (including any redemption of the Notes to obtain a Rating Confirmation) will be required in connection with the Ramp-Up Completion Date. See "Description of the Notes—Mandatory Redemption" and "—Priority of Payments."

The Issuer expects the Rating Agencies to view a failure to pay all or part of the Interest Distribution Amount on the Class D Notes, the Class E Notes, the Class F Notes or the Class G Notes as a failure to pay interest when due on such Class of Notes, notwithstanding that it is not an Event of Default under the Indenture. As a result, upon any such failure to pay the full Interest Distribution Amount on any such Class of Notes, the Rating Agencies are likely to treat any such Class of Notes as defaulted notes and withdraw or reduce the current rating assigned to such Class of Note to a rating corresponding to notes that are in default.

In the case of the Class A Preferred Securities, the Class G Notes, the Class F Notes, the Class E Notes and the Class D Notes, in the event that any rating assigned to ML & Co. is reduced or withdrawn by any Rating Agency, such Rating Agency is likely to withdraw or reduce the rating assigned by it to such Class of Preferred Securities or Notes to a rating not higher than the rating assigned by such Rating Agency to ML & Co. Any such reduction or withdrawal of any rating assigned to ML & Co. may also result in the applicable Rating Agency reducing or withdrawing the rating assigned to the Class A-1 Notes, the Class A-2 Notes, the Class B Notes and the Class C Notes.

If and for so long as any Class of Notes is listed on the Irish Stock Exchange, the Trustee will inform the Irish Paying Agent if the ratings assigned to any Class of Notes are reduced or withdrawn.

## MATURITY, PREPAYMENT AND YIELD CONSIDERATIONS

The Stated Maturity of the Notes is the Quarterly Distribution Date in October 2041. The Notes will mature at their Stated Maturity unless redeemed or repaid prior thereto. The Preferred Securities will be redeemed by the Issuer on the Scheduled Preferred Security Redemption Date unless redeemed prior thereto. However, the average lives of the Notes and the duration of the Preferred Securities are expected to be less than the number of years until the Stated Maturity (in the case of the Notes) and the Scheduled Preferred Security Redemption Date (in the case of the Preferred Securities). Assuming (a) no Collateral Debt Securities default or are sold, (b) any optional redemption of the Collateral Debt Securities occurs in accordance with their respective terms, (c) all outstanding Notes are redeemed on the Quarterly Distribution Date occurring in October 2013 and (d) LIBOR for each future Interest Period equals the rate for such Interest Period based on the zero coupon swap curve with such rate initially to be equal to approximately 5.5%, (i) the average life of the Class A-1 Notes would be approximately 5.7 years from the Closing Date, (ii) the average life of the Class A-2A Notes would be approximately 5.0 years from the Closing Date, (iii) the average life of the Class A-2B Notes would be approximately 7.0 years from the Closing Date, (iv) the average life of the Class B Notes would be approximately 5.9 years from the Closing Date, (v) the average life of the Class C Notes would be approximately 5.9 years from the Closing Date, (vi) the average life of the Class D Notes would be approximately 5.9 years from the Closing Date, (vii) the average life of the Class E Notes would be approximately 5.9 years from the Closing Date, (viii) the average life of the Class F Notes would be approximately 5.1 years from the Closing Date and (ix) the average life of the Class G Notes would be approximately 5.1 years from the Closing Date. Such average lives of the Notes are presented for illustrative purposes only. The assumed identity of the portfolio purchased by the Issuer and the other assumptions used to calculate such average lives of the Notes are necessarily arbitrary, do not necessarily reflect historical experience with respect to securities similar to the Collateral Debt Securities and do not constitute a prediction with respect to the rates or timing of receipts of Interest Proceeds or Principal Proceeds, the Acquisition of Collateral Debt Securities on or prior to the last day of the Reinvestment Period, defaults, recoveries, Dispositions, reinvestments, prepayments or optional redemptions to which the Collateral Debt Securities may be subject. Actual experience as to these matters will differ, and may differ materially, from that assumed in calculating the illustrative average lives set forth above, and consequently the actual average lives of the Notes will differ, and may differ materially, from those set forth above. Accordingly, prospective investors should make their own determinations of the expected weighted average lives and maturity of the Notes and, accordingly, their own evaluation of the merits and risks of an investment in the Notes or the Preferred Securities. See "Risk Factors—Projections, Forecasts and Estimates."

Average life refers to the average number of years that will elapse from the date of delivery of a security until each dollar of the principal of such security will be paid to the investor.

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

Notes. The rate of future defaults and the amount and timing of any cash realization from Defaulted Securities also will affect the average lives of the Notes.

## THE CO-ISSUERS

### General

The Issuer, a special purpose vehicle, was incorporated as an exempted company with limited liability and registered on June 19, 2006 in the Cayman Islands pursuant to the Issuer Charter, has a registered number of WK-169536 and is in good standing under the laws of the Cayman Islands. The registered office of the Issuer is at the offices of Walkers SPV Limited, P.O. Box 908GT, Walker House, Mary Street, George Town, Grand Cayman, Cayman Islands. The telephone number is (345) 945-3727. The Issuer has no prior operating experience and the Issuer will not have any substantial assets other than the Collateral pledged to secure the Notes, the Issuer's obligations under the Collateral Management Agreement, the Hedge Agreements and the Issuer's obligations to the Trustee. The entire authorized share capital of the Issuer will consist of (a) 1,000 ordinary shares, par value U.S.\$1.00 per share (which will be held in trust for charitable purposes by Walkers SPV Limited in the Cayman Islands (in such capacity, the "Share Trustee") under the terms of a declaration of trust) and (b) 94,000 preferred shares (referred to herein as the "Preferred Securities"), par value U.S.\$0.01 per share.

It is proposed that the Issuer will be put into liquidation on the date that is one year and two days after the Stated Maturity of the Notes, subject to the approval of the directors, unless the Issuer is earlier dissolved and terminated in accordance with the terms of the Issuer Charter. See "Description of the Preferred Securities—The Issuer Charter—Dissolution; Liquidating Distributions."

The Co-Issuer, a special purpose vehicle formed solely for the purpose of co-issuing the Notes, was organized on June 23, 2006 under the laws of the State of Delaware with the state identification number 4679960 and its registered office is c/o National Corporate Research, Ltd., 615 South DuPont Highway, Dover, Delaware 19901. The independent manager of the Co-Issuer is Donald J. Puglisi and he may be contacted at c/o Puglisi & Associates, 850 Library Avenue, Suite 204, Newark, Delaware 19711, telephone number (302) 738-6680. The Co-Issuer has no prior operating experience. It will not have any assets (other than U.S.\$1,000 received in connection with the issuance of the undivided limited liability company interest owned by the Issuer) and will not pledge any assets to secure the Notes. The Co-Issuer will not have any interest in the Collateral Debt Securities or other assets held by the Issuer and will have no claim against the Issuer with respect to the Collateral Debt Securities or otherwise.

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

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

The Administrator's activities will be subject to the overview of the board of directors of the Issuer. The directors of the Issuer are David Egglshaw, John Cullinane and Derrie Boggess, each of whom is a director or officer of the Administrator and each of whose offices are at Walkers SPV Limited, P.O. Box 908GT, Mary Street, George Town, Grand Cayman, Cayman Islands, telephone number (345)

945-3727. The Administration Agreement may be terminated by either the Issuer or the Administrator upon 30 days' written notice, in which case a replacement Administrator would be appointed.

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

### **Capitalization and Indebtedness of the Issuer**

The capitalization of the Issuer after giving effect to the issuance of the Securities (assuming that all of the Class A-1 Notes have been issued (and the Aggregate Undrawn Amount is equal to zero) and the ordinary shares of the Issuer, but before deducting expenses of the offering of the Securities and organizational expenses of the Co-Issuers and without giving effect to any Up Front Payment, is expected to be as follows:

Class A-1 Notes	U.S.\$975,000,000*
Class A-2A Notes	U.S.\$82,500,000
Class A-2B Notes	U.S.\$67,500,000
Class B Notes	U.S.\$60,000,000
Class C Notes	U.S.\$80,000,000
Class D Notes	U.S.\$15,000,000
Class E Notes	U.S.\$60,000,000
Class F Notes	U.S.\$31,000,000
Class G Notes	U.S.\$39,000,000
Total Debt	U.S.\$1,410,000,000
Ordinary Securities	U.S.\$ 1,000
Class A Preferred Securities	U.S.\$64,000,000**
Class B Preferred Securities	U.S.\$30,000,000**
Total Equity	U.S.\$94,000,000
Total Capitalization	<u>U.S.\$1,504,001,000</u>

\* None of the U.S.\$975,000,000 principal amount of the Class A-1 Notes will be issued on the Closing Date. However, after the Closing Date pursuant to the Class A-1 Swap Agreement, the Class A-1 Swap Counterparty will be obligated (subject to the terms and conditions of the Class A-1 Swap Agreement) to make payments to the Issuer in order to purchase, and the Issuer will be obligated to issue to the Class A-1 Swap Counterparty, Class A-1 Notes at par.

\*\* Represents the aggregate Notional Amount of the Preferred Securities, which may exceed by a substantial amount the proceeds received by the Issuer from the issuance of the Preferred Securities.

As of the Closing Date and after giving effect to the issuance of the Preferred Securities, the authorized and issued share capital of the Issuer will be 1,000 ordinary shares, par value U.S.\$1.00 per share and 94,000 preferred shares (referred to herein as the "Preferred Securities"), par value U.S.\$0.01 per share.

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

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

## Business

Article 3 of the Issuer Charter provides that the activities of the Issuer are limited to (i) the issuance of the Notes, the Preferred Securities and its ordinary securities, (ii) the Acquisition, Disposition of, and investment in, Collateral Debt Securities, Equity Securities (to a limited extent) and Eligible Investments for its own account, (iii) the entering into, and the performance of its obligations under the Indenture, the Notes, the Class A-1 Swap, the Purchase Agreement, the Account Control Agreement, the Preferred Security Paying Agency Agreement, the Collateral Management Agreement, the Synthetic Securities, the Collateral Administration Agreement, the ISDA Master Agreement, the Administration Agreement and any Hedge Agreement, (iv) the pledge of the Collateral as security for its obligations in respect of (*inter alia*) the Notes, (v) the ownership of the Co-Issuer and (vi) certain activities conducted in connection with the payment of amounts in respect of the Securities, the management of the Collateral and other incidental activities.

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

## SECURITY FOR THE NOTES

### General

The Collateral (together with the Issuer's obligations to any Hedge Counterparty under the Hedge Agreement, to the Credit Default Swap Counterparty under the Credit Default Swaps, to the Class A-1 Swap Counterparty under the Class A-1 Swap, to MLI under the Total Return Swap, to the Collateral Manager under the Collateral Management Agreement and to the Trustee under the Indenture) will consist of: (a) the Custodial Account, the Collateral Debt Securities and the Equity Securities (if any), (b) the Accounts (other than the Hedge Counterparty Collateral Account, the Synthetic Security Issuer Account and the Class A-1 Swap Prefunding Account), all funds and other property standing to the credit of each such Account, Eligible Investments purchased with funds standing to the credit of each such Account and all income from the investment of funds therein, and the Issuer's rights in and to each Synthetic Security Issuer Account, (c) for the benefit of first, the Credit Default Swap Counterparty (to the extent necessary to secure the Issuer's obligations under the Credit Default Swaps) and second, the other Secured Parties, the Issuer's rights as beneficiary of the Trustee's security interest in each Class A-1 Swap Prefunding Account, (d) the Issuer's rights in and to each Hedge Counterparty Collateral Account, (e) the rights of the Issuer under the Collateral Management Agreement, the Collateral Administration Agreement, the Administration Agreement, all agreements relating to the Synthetic Securities and each Hedge Agreement, (f) for the benefit of the Credit Default Swap Counterparty only, the rights of the Issuer under the Class A-1 Swap to require Class A-1 Fundings in respect of amounts owing by the Issuer to the Credit Default Swap Counterparty under the Credit Default Swaps, (g) all cash delivered to the Trustee and (h) all proceeds, accessions, profits, income benefits, substitutions and replacements, whether voluntary or involuntary, of and to any of the property of the Issuer described in the preceding clauses, but excluding Excepted Property (collectively, the "Collateral"); *provided* that each Synthetic Security Counterparty Account (and all funds and other property credited thereto) will also be held by the Trustee for the benefit of the related Synthetic Security Counterparty. In the event of any realization on the Collateral, proceeds will be applied in accordance with the respective priorities established by the Liquidation Priority of Payments. The security interest granted under the Indenture in each Synthetic Security Counterparty Account (and all funds and other property credited thereto), for the benefit of the Secured Parties, is subject to, and subordinate to the security interest and rights of, the relevant Synthetic Security Counterparty in and to such Synthetic Security Counterparty Account.

Notwithstanding the foregoing, the amounts on deposit in a Class A-1 Swap Prefunding Account will be available only for application to Permitted Uses and distribution to the Class A-1 Swap Counterparty pursuant to the Class A-1 Swap and will not be available to the Issuer to pay amounts owed to any Secured Parties other than the Credit Default Swap Counterparty or the Class A-1 Swap Counterparty.

### Collateral Debt Securities

On the Closing Date, the Issuer will have purchased (or entered into agreements to purchase for settlement following the Closing Date) Collateral Debt Securities having an Aggregate Principal Balance (together with certain other amounts) of not less than U.S.\$1,350,000,000 of which approximately U.S.\$1,290,000,000 is expected to consist of the notional amount of Credit Default Swaps. On and after the Closing Date, the Issuer may not invest in Prohibited Securities.

During the Ramp-Up Period, the Issuer may invest Uninvested Proceeds in Collateral Debt Securities. During the Reinvestment Period, the Issuer may reinvest Principal Proceeds in Collateral Debt Securities and may apply CDS Principal Proceeds to Acquire substitute Credit Default Swaps.

## Ramp-Up Period

During the Ramp-Up Period (the "Ramp-Up Period"), from and including the Closing Date to, and including, the Ramp-Up Completion Date, the Issuer will use its commercially reasonable efforts to Acquire the remainder of the initial portfolio of Collateral Debt Securities. The Issuer will use its commercially reasonable efforts to Acquire (or enter into commitments to Acquire) Collateral Debt Securities which, together with certain other amounts specified below, will have an Aggregate Principal Balance equal to at least U.S.\$1,500,000,000 on the Ramp-Up Completion Date, of which at least U.S.\$1,125,000,000 will be comprised of the notional amount of the Credit Default Swaps. In addition, during the Ramp-Up Period, the Collateral Manager, on behalf of the Issuer, may direct the Trustee to apply Principal Proceeds to Acquire Collateral Debt Securities and CDS Principal Proceeds to enter into Credit Default Swaps, for inclusion in the Collateral.

The Issuer will notify (such notification, a "Ramp-Up Notice") the Trustee, each Rating Agency, the Credit Default Swap Counterparty and each Hedge Counterparty in writing of the occurrence of the Ramp-Up Completion Date within ten Business Days after the Ramp-Up Completion Date occurs. The Issuer will request that each Rating Agency confirm to the Issuer that it has not reduced or withdrawn the rating assigned by it on the Closing Date to any Class of Notes (a "Rating Confirmation"); *provided that*, if the Ramp-Up Completion Date occurs on the Closing Date (as shall be evidenced by the schedule of Collateral Debt Securities and an accountant's report delivered on the Closing Date pursuant to the Indenture), then the initial assignment by Moody's and Standard & Poor's of their ratings to the Notes on the Closing Date shall constitute a Rating Confirmation and no further action shall be required in connection with the Ramp-Up Completion Date. In the Ramp-Up Notice, the Issuer is required to certify to the Trustee and each Rating Agency that the Collateral Quality Tests have been satisfied. If the Issuer is required to request a Rating Confirmation but is unable to obtain a Rating Confirmation from each Rating Agency prior to the first Determination Date that is at least 30 Business Days following receipt by such Rating Agency of such Ramp-Up Notice (a "Rating Confirmation Failure"), on the first Quarterly Distribution Date following such Rating Confirmation Failure, the Issuer will be required to apply Uninvested Proceeds (which are not required to complete purchases of Collateral Debt Securities), and then Interest Proceeds and Principal Proceeds, to pay, in part, the principal amount of the Notes and to make a deposit to the CDS Reserve Account to reduce permanently the Aggregate Undrawn Amount in accordance with the Sequential Payment Priority, and will apply CDS Principal Proceeds to reduce permanently the Aggregate Undrawn Amount, to the extent required to obtain the Rating Confirmation or to the extent specified in a Proposed Plan which satisfies the Rating Condition.

After the Ramp-Up Completion Date, if a Rating Confirmation is not received (or earlier if, in the Collateral Manager's sole judgment, it does not believe a Rating Confirmation will be obtained), the Collateral Manager on behalf of the Issuer may propose a plan (a "Proposed Plan") to the Rating Agencies to obtain a Rating Confirmation, which Proposed Plan may include a proposal (a) to make certain payments of principal of and accrued interest on the aggregate outstanding amount of the Notes in accordance with the Priority of Payments, to make a deposit to the CDS Reserve Account to reduce permanently the Aggregate Undrawn Amount and to apply CDS Principal Proceeds to reduce permanently the Aggregate Undrawn Amount, (b) to Dispose of and/or terminate or assign a portion of the Collateral Debt Securities, (c) to extend the Ramp-Up Completion Date to a date that is up to 180 days following the Closing Date, (d) subject to the terms of the Issuer Charter and with the consent of 100% of the Holders of Preferred Securities, to issue additional Preferred Securities and to use the proceeds of the sale of such Preferred Securities to purchase or enter into Collateral Debt Securities, (e) to postpone the Ramp-Up Completion Date to a date to occur no later than 180 days following the Closing Date or (f) to take any other action not otherwise prohibited by the Indenture as may be proposed in such Proposed Plan.



If a Proposed Plan has been presented to the Rating Agencies and the Rating Condition has been satisfied with respect to any Rating Agency from which a Rating Confirmation has not been obtained (or deemed to have been obtained), the Issuer will take the actions specified in such Proposed Plan including, if applicable, the investment of net proceeds of the issuance of the Securities remaining uninvested at such time in additional Collateral Debt Securities or application thereof to the payment of the principal of the Notes as described in the paragraph above.

If Uninvested Proceeds are insufficient to redeem the Notes and to reduce the Aggregate Undrawn Amount in order to obtain a Rating Confirmation, on the first Quarterly Distribution Date, then on each Quarterly Distribution Date, Interest Proceeds and, to the extent that Interest Proceeds are insufficient, Principal Proceeds, will be applied in accordance with the Priority of Payments, to the payment of principal of the Notes and to make a deposit to the CDS Reserve Account to reduce permanently the Aggregate Undrawn Amount in accordance with the Sequential Payment Priority and CDS Principal Proceeds will be applied to reduce permanently the Aggregate Undrawn Amount, to the extent specified by each relevant Rating Agency to obtain a Rating Confirmation or to the extent specified in a Proposed Plan which satisfies the Rating Condition with respect to any Rating Agency which did not issue a Rating Confirmation.

### **Reinvestment Period**

During the Reinvestment Period, the Collateral Manager on behalf of the Issuer may invest any Principal Proceeds that are not Specified Principal Proceeds in Cash Collateral Debt Securities and Defeased Synthetic Securities in accordance with the Eligibility Criteria. If the Collateral Manager wishes to increase the percentage of the Net Outstanding Portfolio Collateral Balance which consists of Defeased Synthetic Securities and Cash Collateral Debt Securities, the Collateral Manager may direct the Trustee to transfer any CDS Reserve Account Excess Withdrawal Amount to the Principal Collection Account where it will be available for investments in such securities on or prior to the Determination Date for the second Quarterly Distribution Date after the CDS Principal Receipt Date on which the CDS Reserve Account Excess occurred. Such transfers may be made no more than once during any 30 consecutive days and on the 10th calendar day of each month (or, if such day is not a Business Day, the next succeeding Business Day) of each month (in each case, on at least five Business Days' prior notice by the Collateral Manager to the Trustee and MLI). Such transfers may not be made during the period from and including the Determination Date to but excluding the Quarterly Distribution Date. Any such transfer of the CDS Reserve Account Excess Withdrawal Amount will reduce the Issuer's capacity to reinvest CDS Principal Proceeds in Credit Default Swaps. However, no investment may be made in Cash Collateral Debt Securities and Defeased Synthetic Securities if at such time there is or (as a result of such investment) there will be a Notional Amount Shortfall in excess of zero.

During the Reinvestment Period, the Collateral Manager on behalf of the Issuer may apply CDS Principal Proceeds that are not Specified CDS Principal Proceeds to Acquire new Credit Default Swaps in accordance with the Eligibility Criteria below. The CDS Principal Proceeds are not cash received by the Issuer but instead represent the aggregate principal amortization which has occurred on the Reference Obligations under the Credit Default Swaps and the notional amount of Credit Default Swaps which have been terminated, assigned or hedged by the Issuer during the current Due Period and the immediately preceding Due Period, which have not been reinvested or applied to reduce the Aggregate Undrawn Amount pursuant to the CDS Application Priority. The CDS Principal Proceeds will not include the reductions in the notional amount of the Credit Default Swaps resulting from Credit Events or Floating Amount Events, because this notional amount reduction may not be reinvested. The Issuer may not Acquire a Credit Default Swap if there is or (as a result of such investment) there will be a Notional Amount Shortfall in excess of zero. The Notional Amount Shortfall compares the Remaining Exposure under the Credit Default Swaps with the sum of the Aggregate Undrawn Amount and the CDS Reserve

Account Balance. During the Reinvestment Period, if the Collateral Manager wishes to increase the percentage of the Net Outstanding Portfolio Collateral Balance which consists of Credit Default Swaps, the Collateral Manager may direct the Trustee to transfer any Principal Proceeds (that are not Specified Principal Proceeds) to the CDS Reserve Account which will enable the Issuer to Acquire additional Credit Default Swaps by the Determination Date for the second Quarterly Distribution Date after such Principal Proceeds were received. Such transfers may be made no more than once during any 30 consecutive days and on the 10th calendar day of each month (or, if such day is not a Business Day, the next succeeding Business Day) of each month (in each case, on at least five Business Days' prior notice by the Collateral Manager to the Trustee and MLI). Such transfers may not be made during the period from and including the Determination Date to but excluding the Quarterly Distribution Date. The Total Return Swap may contain additional limitations on the increase in the notional amount of the Total Return Swap by virtue of such transfers during any Due Period.

The Issuer may not Acquire any Cash Collateral Debt Security, Credit Default Swap or other Synthetic Security after the Reinvestment Period ends except (i) to complete Acquisitions which the Issuer committed to make during the Reinvestment Period and (ii) Hedge Rebalancing Purchases. The Reinvestment Period is scheduled to end on the Quarterly Distribution Date in October 2010, but may be terminated earlier (i) at the election of the Collateral Manager, (ii) as the result of a Tax Redemption, (iii) upon the occurrence of an Event of Default that results in the acceleration of the Notes, (iv) upon resignation or termination of Harding Advisory as Collateral Manager or (v) on any date after Harding Advisory has resigned or been removed as Collateral Manager, if the Holders of at least a majority in Aggregate Outstanding Amount of the Controlling Class or a Majority-in-Interest of the Holders of Preferred Securities notify the Trustee and the Collateral Manager that the Reinvestment Period shall be terminated.

### **Eligibility Criteria**

The Issuer may (a) Acquire Collateral Debt Securities or Synthetic Securities (including Credit Default Swaps) on the Closing Date, (b) during the Ramp-Up Period and the Reinvestment Period, apply Uninvested Proceeds, Principal Proceeds, any CDS Reserve Account Excess Withdrawal Amount and proceeds received from any Disposition during the Reinvestment Period to Acquire Cash Collateral Debt Securities, Defeased Synthetic Securities and Credit Default Swaps, (c) during the Reinvestment Period, in connection with any CDS Principal Payments under, and the termination, hedging or assignment of, individual Credit Default Swaps, apply CDS Principal Proceeds to Acquire additional Credit Default Swaps and (d) after the Reinvestment Period, apply Unscheduled Fixed Rate Principal Proceeds to Acquire Fixed Rate Securities in Hedge Rebalancing Purchases, if in each case, after giving effect to such investment on the trade date, each of the following criteria (the "Eligibility Criteria") is satisfied with respect to such Collateral Debt Security:

- |                                       |  |
|---------------------------------------|--|
| <b>Assignable</b>                     | (1) the Underlying Instrument pursuant to which such security was issued permits the Issuer to purchase it and pledge it to the Trustee and such security is a type subject to Article 8 or Article 9 of the UCC;  |
| <b>Jurisdiction of obligor/issuer</b> | (2) the obligor on or issuer of such security (or the Reference Obligation in the case of any Single Obligation Synthetic Security) (x) is organized or incorporated under the laws of the United States or a State thereof or in a Special Purpose Vehicle Jurisdiction or (y) is a Qualifying Foreign Obligor; <i>provided</i> that the Aggregate Principal Balance of all Pledged Collateral Debt Securities that are issued by Qualifying Foreign Obligors located in the United Kingdom and Canada do not exceed 10% and 15%, respectively, of the Net Outstanding Portfolio Collateral Balance and the Aggregate Principal Balance |

of all Pledged Collateral Debt Securities that are issued by Qualifying Foreign Obligor located in all jurisdictions (other than the United States or a Special Purpose Vehicle Jurisdiction) does not exceed 25% of the Net Outstanding Portfolio Collateral Balance;

**Dollar  
denominated**

(3) such security (or the Reference Obligation in the case of any Single Obligation Synthetic Security) is denominated and payable only in Dollars and may not be converted into a security payable in any other currency;

**Fixed  
principal  
amount**

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

**Rating**

(5) such security (or the Reference Obligation in the case of any Single Obligation Synthetic Security) (A) has a Moody's Rating and a Standard & Poor's Rating, (B) if publicly rated by Moody's or Standard & Poor's, the lowest of such ratings is at least "Ba3" or "BB-," as applicable; *provided* that (i) the Aggregate Principal Balance of all Pledged Collateral Debt Securities that have a public rating of below "Baa3" by Moody's (if publicly rated by Moody's) or below "BBB-" from Standard & Poor's (if publicly rated by Standard & Poor's) does not exceed 10% of the Net Outstanding Portfolio Collateral Balance and (C) the Standard & Poor's rating thereof does not contain the subscript "r," "t," "p," "pi" or "q";

**Registered  
form**

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

**No  
withholding**

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

**Does not  
subject Issuer  
to tax on a net  
income basis**

(8) the Issuer will not (i) be treated as engaged in a U.S. trade or business for U.S. Federal income tax purposes or otherwise be subject to tax on a net income basis in any jurisdiction outside the Issuer's jurisdiction of incorporation as a result of the Acquisition (including the manner of Acquisition), ownership, enforcement or Disposition of such security (in each case, as determined on the basis of applicable laws and regulations as of the Closing Date or, if later, on the date of Acquisition of such security) or (ii) upon Disposition of such security, be subject to U.S. Federal income or withholding tax under Section 897 or Section 1445 of the Code and the Treasury Regulations promulgated thereunder on any gain realized on such Disposition (in each case, as determined on the basis of applicable laws and regulations as of the Closing Date or, if later, on the

date of Acquisition of such security);

**Does not  
subject Issuer  
to Investment  
Company Act  
restrictions**

(9) the Acquisition (including the manner of Acquisition), ownership, enforcement and Disposition of such security (in each case, as determined on the basis of applicable laws and regulations as of the Closing Date or, if later, on the date of Acquisition of such security) will not cause the Issuer or the pool of Collateral to become an investment company required to be registered under the Investment Company Act;

**No Defaulted  
Securities,  
Credit Risk  
Securities, Equity  
Securities or  
Written Down  
Securities**

(10) such security (or the Reference Obligation in the case of any Single Obligation Synthetic Security) is not a Defaulted Security, a Credit Risk Security, an Equity Security or a Written Down Security;

**Purchase price**

(11) other than any Credit Default Swap or Defeased Synthetic Security, the purchase price (expressed as a percentage) of such security is not less than (A) 75% *multiplied by* (B) the Adjusted Issue Price of such security;

**No foreign  
exchange  
controls**

(12) payments in respect of such security (or the Reference Obligation in the case of any Single Obligation Synthetic Security) are not made from a country that imposes foreign exchange controls that effectively limit the availability or use of Dollars to make when due the scheduled payments of principal of and interest on such security;

**No Margin  
Stock**

(13) such security (or the Reference Obligation in the case of any Single Obligation Synthetic Security) is not, and any Equity Security Acquired in connection with such security is not, Margin Stock;

**No debtor-in-  
possession  
financing**

(14) such security (or the Reference Obligation in the case of any Single Obligation Synthetic Security) is not a financing by a debtor-in-possession in any insolvency proceeding;

**No optional or  
mandatory  
conversion or  
exchange**

(15) such security (or the Reference Obligation in the case of any Single Obligation Synthetic Security) is not a security that by the terms of its Underlying Instruments provides for conversion or exchange (whether mandatory, at the option of the issuer or the holder thereof or otherwise) into equity capital at any time prior to its maturity;

**Not subject to  
an Offer or  
called for  
redemption**

(16) such security (or the Reference Obligation in the case of any Single Obligation Synthetic Security) is not the subject of an Offer (other than an Offer to exchange such security for a security that constitutes a Collateral Debt Security and that such Offer is registered under the Securities Act or such security is issued pursuant to Rule 144A (or another exemption from registration) under the Securities Act, where the replacement security would have terms that are similar to, or more favorable to the Issuer than, the security being exchanged) and has not been called for redemption;

<b>No future advances</b>	(17) such security (or the Reference Obligation in the case of any Single Obligation Synthetic Security) is not a security with respect to which the Issuer is required by the Underlying Instruments to make any payment or advance to the issuer thereof or to the related Synthetic Security Counterparty (other than a Credit Default Swap or Defeased Synthetic Security);
<b>Fixed Rate Securities</b>	(18) if such security is a Fixed Rate Security, a Deemed Fixed Rate Security or a Hybrid Security currently bearing interest at a fixed rate, the Aggregate Principal Balance of all such Pledged Collateral Debt Securities does not exceed 5% of the Net Outstanding Portfolio Collateral Balance;
<b>Pure Private Collateral Debt Securities</b>	(19) if such security (or the Reference Obligation in the case of any Single Obligation Synthetic Security) is a Pure Private Collateral Debt Security, the Aggregate Principal Balance of all such Pledged Collateral Debt Securities does not exceed 5% of the Net Outstanding Portfolio Collateral Balance;
<b>Specified Type</b>	(20) such security (or the Reference Obligation in the case of any Single Obligation Synthetic Security) is a Specified Type of Asset-Backed Security;
<b>Single Servicer</b>	<p>(21) with respect to the Servicer of the security (or the Reference Obligation in the case of any Single Obligation Synthetic Security) being Acquired:</p> <p>(A) if the senior unsecured long-term obligations of such Servicer (or, if an affiliate of such Servicer is required to perform the obligations of such Servicer, such affiliate) are rated (x) "Aa3" or higher by Moody's or (y) "AA-" or higher or it has a servicer ranking of "Strong" by Standard &amp; Poor's, the aggregate Principal Balance of all Pledged Collateral Debt Securities serviced by such Servicer (together with the aggregate Principal Balance of any Single Obligation Synthetic Securities the Reference Obligations of which are such securities) does not exceed 25% of the Net Outstanding Portfolio Collateral Balance;</p> <p>(B) if the senior unsecured long-term obligations of such Servicer (or, if an affiliate of such Servicer is required to perform the obligations of such Servicer, such affiliate) does not satisfy the requirements of clause (A) above and is rated (1) "A3" or higher but below "Aa3" by Moody's or (2) "A-" or higher or it has a servicer ranking of "Above Average" but below "AA-" by Standard &amp; Poor's, the aggregate Principal Balance of all Pledged Collateral Debt Securities serviced by such Servicer (together with the aggregate Principal Balance of any Single Obligation Synthetic Securities the Reference Obligations of which are such securities) does not exceed 15% of the Net Outstanding Portfolio Collateral Balance;</p> <p>(C) if the obligations of such Servicer (or, if an affiliate of such Servicer is required to perform the obligations of such Servicer, such affiliate) are ranked "Average" by Standard &amp; Poor's, the aggregate Principal Balance of all Pledged Collateral Debt Securities serviced by such Servicer (together with the aggregate Principal Balance of any Single Obligation Synthetic Securities the Reference Obligations of which are such securities) does not exceed 7.5% of the Net Outstanding Portfolio Collateral Balance;</p> <p>(D) if the obligations of such Servicer (or, if an affiliate of such Servicer is required to perform the obligations of such Servicer, such affiliate) are ranked</p>

"Below Average" by Standard & Poor's, the aggregate Principal Balance of all Pledged Collateral Debt Securities serviced by such Servicer (together with the aggregate Principal Balance of any Single Obligation Synthetic Securities the Reference Obligations of which are such securities) does not exceed 5% of the Net Outstanding Portfolio Collateral Balance;

(E) if the senior unsecured long-term obligations of such Servicer (or, if an affiliate of such Servicer is required to perform the obligations of such Servicer, such affiliate) are not rated by Standard & Poor's or it is ranked "Weak" (or has no servicer ranking) by Standard & Poor's, the aggregate Principal Balance of all Pledged Collateral Debt Securities serviced by such Servicer (together with the aggregate Principal Balance of any Single Obligation Synthetic Securities the Reference Obligations of which are such securities) does not exceed 2.5% of the Net Outstanding Portfolio Collateral Balance; and

(F) if the senior unsecured long-term obligations of such Servicer (or, if an affiliate of such Servicer is required to perform the obligations of such Servicer, such affiliate) are not rated or are rated (x) below "A3" by Moody's or (y) below "A-" by Standard & Poor's (and does not satisfy the requirements of (A), (B) or (C) above with respect to this paragraph (21)), the aggregate Principal Balance of all Pledged Collateral Debt Securities serviced by such Servicer (together with the aggregate Principal Balance of any Single Obligation Synthetic Securities the Reference Obligations of which are such securities) does not exceed 5% of the Net Outstanding Portfolio Collateral Balance;

*provided that, notwithstanding the foregoing:*

(w) for the avoidance of doubt, this clause (21) shall be applicable only to a security that is an RMBS or, in the case of any Single Obligation Synthetic Security, a Single Obligation Synthetic Security as to which the Reference Obligation is an RMBS;

(x) if such Servicer is Countrywide (or, if an affiliate of Countrywide is required to perform the obligations of Countrywide, such affiliate) and it does not meet the ratings requirements set forth in (A) above, the aggregate Principal Balance of all Pledged Collateral Debt Securities that are serviced by Countrywide and its affiliates (together with the aggregate Principal Balance of each Single Obligation Synthetic Security the Reference Obligations of which are such securities) does not exceed 20% of the Net Outstanding Portfolio Collateral Balance;

(y) if such Servicer is Wells Fargo (or, if an affiliate of Wells Fargo is required to perform the obligations of Wells Fargo, such affiliate) and it does not meet the ratings requirements set forth in (A) above, the aggregate Principal Balance of all Pledged Collateral Debt Securities that are serviced by Wells Fargo and its affiliates (together with the aggregate Principal Balance of each Single Obligation Synthetic Security the Reference Obligations of which are such securities) does not exceed 30% of the Net Outstanding Portfolio Collateral Balance;

(z) if such Servicer is Residential Funding Corp. (or, if an affiliate of Residential Funding Corp. is required to perform the obligations of Residential

Funding Corp., such affiliate) and it does not meet the ratings requirements set forth in (A) above, the aggregate Principal Balance of all Pledged Collateral Debt Securities that are serviced by Residential Funding Corp. and its affiliates (together with the aggregate Principal Balance of each Single Obligation Synthetic Security the Reference Obligations of which are such securities) does not exceed 20% of the Net Outstanding Portfolio Collateral Balance; and

(aa) if such Servicer is Aurora Loan Securities (or, if an affiliate of Aurora Loan Securities is required to perform the obligations of Aurora Loan Securities, such affiliate) and it does not meet the ratings requirements set forth in (A) above, the aggregate Principal Balance of all Pledged Collateral Debt Securities that are serviced by Aurora Loan Securities and its affiliates (together with the aggregate Principal Balance of each Single Obligation Synthetic Security the Reference Obligations of which are such securities) does not exceed 20% of the Net Outstanding Portfolio Collateral Balance;

**Synthetic  
Securities**

(22) if such security is a Synthetic Security, then (A) such Synthetic Security is Acquired from (or entered into with) a Synthetic Security Counterparty;

(B) (i) in the case of a Single Obligation Synthetic Security, any Reference Obligation to which such Synthetic Security relates would (treating the Acquisition of the Synthetic Security as Acquisition of the Reference Obligation from the Synthetic Security Counterparty) satisfy clauses (7) and (8) of the Eligibility Criteria or (ii) the Issuer and the Trustee receive written advice from nationally recognized U.S. tax counsel to the effect that such Synthetic Security satisfies clauses (7) and (8) of the Eligibility Criteria;

(C) the Acquisition of such Pledged Collateral Debt Security that is a Credit Default Swap will not cause or increase any Notional Amount Shortfall greater than zero;

(D) no such Pledged Collateral Debt Securities are Unhedged Short Credit Default Swaps;

(E) each Reference Obligation under a Credit Default Swap is an RMBS, a CMBS or a CDO Obligation and is not an ABS REIT Debt Security, a Hybrid Security, an Interest Only Security (other than a Form Approved Synthetic Security), a Principal Only Security (other than a Form Approved Synthetic Security) or a Prohibited Security;

(F) such Synthetic Security is a Credit Default Swap under the ISDA Master Agreement or a Defeased Synthetic Security, unless a CDS Replacement has occurred; and

(G) if such Synthetic Security is an Index Synthetic Security, the Aggregate Principal Balance of all such Pledged Collateral Debt Securities does not exceed 4% of the Net Outstanding Portfolio Collateral Balance or, in the case of any such securities of the same vintage 2% of the Net Outstanding Portfolio Collateral Balance;

**CDO Obligations**

(23) if such security (or the Reference Obligation in the case of any Single Obligation Synthetic Security) is a CDO Obligation, (A) the Aggregate

Principal Balance of all Pledged Collateral Debt Securities that are CDO Obligations (together with the Aggregate Principal Balance of any Single Obligation Synthetic Security as to which the Reference Obligation is such a security) does not exceed 10% of the Net Outstanding Portfolio Collateral Balance, (B) the Collateral Manager or an affiliate thereof is not the collateral manager for the CDO Obligation unless it is a Bespoke CDO Security; provided that the Aggregate Principal Balance of all Bespoke CDO Securities managed by the Collateral Manager does not exceed 2.5% of the Net Outstanding Portfolio Collateral Balance; and (C) the Aggregate Principal Balance of all Pledged Collateral Debt Securities that are Market Value CDO Securities (together with the Aggregate Principal Balance of any Single Obligation Synthetic Security as to which the Reference Obligation is such a security) does not exceed 2.5% of the Net Outstanding Portfolio Collateral Balance;

**Frequency of Interest Payments**

(24) if such security provides for periodic payments of interest in cash less frequently than quarterly, the Aggregate Principal Balance of all Pledged Collateral Debt Securities that provide for periodic payments of interest in cash less frequently than quarterly (together with the Aggregate Principal Balance of any Synthetic Securities related thereto) does not exceed 5% of the Net Outstanding Portfolio Collateral Balance;

**Collateral Quality Tests**

(25) (A) on or prior to the Ramp-Up Completion Date, each of the Moody's Asset Correlation Test, the Weighted Average Spread Test, the Moody's Maximum Rating Distribution Test and Moody's Minimum Weighted Average Recovery Rate Test is satisfied or, if immediately prior to such Acquisition one or more of the Moody's Asset Correlation Test or Moody's Minimum Weighted Average Recovery Rate Test was not satisfied, the extent of compliance with any such the Moody's Asset Correlation Test or Moody's Minimum Weighted Average Recovery Rate Test which was not satisfied is maintained or improved by such Acquisition and (B) after the Ramp-Up Completion Date, each of the applicable Collateral Quality Tests and (except in the case of reinvestment of Disposition Proceeds of a Credit Risk Security) the Standard & Poor's CDO Monitor Test is satisfied or, if immediately prior to such Acquisition one or more of such Collateral Quality Tests or the Standard & Poor's CDO Monitor Test was not satisfied, the extent of compliance with any such Collateral Quality Test or the Standard & Poor's CDO Monitor Test which was not satisfied is maintained or improved by such Acquisition;

**Limitation on Stated Maturity**

(26) such security (or the Reference Obligation in the case of any Single Obligation Synthetic Security) does not have a Stated Maturity that occurs later than the Stated Maturity of the Notes; *provided* that (I)(i) the Issuer may Acquire a Collateral Debt Security having a Stated Maturity that occurs after the Stated Maturity of the Notes (A) if the Aggregate Principal Balance of all such Collateral Debt Securities does not exceed 10% of the Net Outstanding Portfolio Collateral Balance, and (B) the Weighted Average Life of all such Collateral Debt Securities is less than 12 years (ii) the Issuer may acquire a Collateral Debt Security having a Stated Maturity later than one year after the Stated Maturity of the Notes only if either (A) the Aggregate Principal Balance of all such Collateral Debt Securities does not exceed 5% of the Net Outstanding Portfolio Collateral Balance, or (B) the Collateral Manager certifies to the Trustee that, assuming a 5% CPR for such security, the cash flows for such security will be



received prior to the Stated Maturity of the Notes, and (iii) if such Collateral Debt Security is a CMBS, the Stated Maturity of such CMBS shall be deemed to be the earlier of (A) the Stated Maturity of such CMBS as specified in the related Underlying Instrument and (B) the date which is five years after the later of (x) the last occurring balloon date with respect to any balloon loan securing such CMBS and (y) the last scheduled amortization date with respect to any other loans securing such CMBS); and (II) the expected life of such security (as determined by the Collateral Manager) ends no later than the Stated Maturity of the Notes;

**PIK Bonds**

(27) if such security is a PIK Bond, (i) it is not a Deferred Interest PIK Bond, and (ii) the Aggregate Principal Balance of all such PIK Bonds (together with the Aggregate Principal Balance of each Single Obligation Synthetic Security the Reference Obligation of which is such a security) does not exceed 5% of the Net Outstanding Portfolio Collateral Balance;

**Floating Rate Securities**

(28) if such security is a Floating Rate Security, a Deemed Floating Rate Security or a Hybrid Security currently bearing interest at a floating rate (including any Single Obligation Synthetic Security, which, taking into account the investments in the Synthetic Security Counterparty Account, provides for payments at a floating rate), (i) the Aggregate Principal Balance of all such Pledged Collateral Debt Securities does not exceed 100% of the Net Outstanding Portfolio Collateral Balance and (ii) such Security is not an Inverse Floating Rate Security or a Non-LIBOR Floating Rate Security;

**Deemed Floating Rate Securities;  
Deemed Fixed Rate Securities**

(29) if such security is a Deemed Floating Rate Security or a Deemed Fixed Rate Security, the Aggregate Principal Balance of all such Pledged Collateral Debt Securities does not exceed 10% of the Net Outstanding Portfolio Collateral Balance;

**Single Issuer Concentration**

(30) (A) after giving effect to Acquisition of such security, the Aggregate Principal Balance of all Pledged Collateral Debt Securities (together with the Aggregate Principal Balance of each Single Obligation Synthetic Security the Reference Obligation of which is such a security) issued by the issuer of such security does not exceed 1.25% of the Net Outstanding Portfolio Collateral Balance; *provided that*: with respect to not more than 15 issuers, the Aggregate Principal Balance of all Collateral Debt Securities of each such issuer (together with the Aggregate Principal Balance of any Synthetic Securities the Reference Obligations of which are such securities), may be greater than 1.25% but not more than 2% of the Net Outstanding Portfolio Collateral Balance, (B) notwithstanding clause (A) above, if such security has a public rating from Moody's of "Ba1" or lower, a public rating from Standard & Poor's of "BB+" or lower, the Aggregate Principal Balance of all Collateral Debt Securities of such issuer (together with the aggregate principal balance of any Synthetic Securities the Reference Obligations of which are such securities) may not be greater than 1% of the Net Outstanding Portfolio Collateral Balance; *provided that*: with respect to not more than five such issuers, the Aggregate Principal Balance of all Collateral Debt Securities of each such issuer (together with the Aggregate Principal Balance of any Synthetic Securities the Reference Obligations of which are such securities), may be greater than 1% but not more than 2% of the

Net Outstanding Portfolio Collateral Balance;

**Principal Only Securities**

(31) if such security is a Principal Only Security, the Aggregate Principal Balance of all such Pledged Collateral Debt Securities (together with the Aggregate Principal Balance of each Single Obligation Synthetic Security the Reference Obligation of which is such a security) does not exceed 5% of the Net Outstanding Portfolio Collateral Balance and it is rated by Standard & Poor's and by Moody's;

**Minimum and Maximum Aggregate Principal Balance of Credit Default Swaps**

(32) the Aggregate Principal Balance of all Pledged Collateral Debt Securities that are Credit Default Swaps is not less than 75% or greater than 95% of the Net Outstanding Portfolio Collateral Balance;

**Hedge Rebalancing Purchases**

(33) if such security is Acquired after the Reinvestment Period, it is a Hedge Rebalancing Purchase and, at the time of Acquisition, (i) no rating assigned to any Class of the Notes has been reduced or withdrawn, and (ii) the Class A Sequential Pay Ratio is not less than the amount thereof on the Ramp-Up Completion Date;

**Specified Type; Prohibited Securities**

(34) such security is a security of a Specified Type other than a Prohibited Security;

**ABS REIT Debt Securities, CMBS and Trust Preferred CDO Securities**

(35) (A) if such security is a ABS REIT Debt Security the Aggregate Principal Balance of all Collateral Debt Securities that are ABS REIT Debt Securities (together with the Aggregate Principal Balance of any Synthetic Securities the Reference Obligations of which are such securities) does not exceed 5.0% of the Net Outstanding Portfolio Collateral Balance, (B) if such security is a CMBS the Aggregate Principal Balance of all Collateral Debt Securities that are CMBS (together with the Aggregate Principal Balance of any Synthetic Securities the Reference Obligations of which are such securities) does not exceed 5.0% of the Net Outstanding Portfolio Collateral Balance, and (C) such security (or the Reference Obligation of any Synthetic Security) is not Trust Preferred CDO Security;

**Negative Amortization Securities and Interest Only Securities**

(36) (A) if such security is a Negative Amortization Security the Aggregate Principal Balance of all Collateral Debt Securities that are Negative Amortization Securities (together with the Aggregate Principal Balance of any Synthetic Securities the Reference Obligations of which are such securities) does not exceed 5.0% of the Net Outstanding Portfolio Collateral Balance and (B) if such security is a Interest Only Security it is purchased with Interest Proceeds and the Aggregate Amortized Cost of all Collateral Debt Securities that are Interest Only Securities does not exceed 5.0% of the Net Outstanding Portfolio Collateral Balance;

**CAP Corridor Securities**

(37) if such security is a Cap Corridor Security, the Aggregate Principal Balance of all Collateral Debt Securities that are Cap Corridor Securities does not exceed 2.5% of the Net Outstanding Portfolio Collateral Balance;

<b>Step-Down Bonds or Step-Up Bonds</b>	(38) if such security is either a Step-Down Bond or a Step-Up Bond, the Aggregate Principal Balance of all Collateral Debt Securities that are Step-Down Bonds and Step-Up Bonds do not in the aggregate exceed 5.0% of the Net Outstanding Portfolio Collateral Balance;
<b>Limit on Negative Amortization Securities, Cap Corridor Securities, Step-Down Bonds and Step-Up Bonds</b>	(39) the Aggregate Principal Balance of all Collateral Debt Securities that are Negative Amortization Securities (together with the Aggregate Principal Balance of any Synthetic Securities the Reference Obligations of which are such securities), Cap Corridor Securities, Step-Down Bonds and Step-Up Bonds does not exceed 10.0% of the Net Outstanding Portfolio Collateral Balance; and
<b>Class A Sequential Pay Test</b>	(40) prior to Acquisition of such Collateral Debt Security, the Class A Sequential Pay Test is satisfied.

For purposes of showing compliance with the Eligibility Criteria in the Monthly Reports and Note Valuation Reports, the Net Outstanding Portfolio Collateral Balance shall be deemed to equal U.S.\$1,500,000,000. For purposes of paragraphs (2), (5), (18) through (19), (21) through (24), (26) through (32) and (35) through (39) of the "Eligibility Criteria" and for certain other purposes specified in the Indenture, the Net Outstanding Portfolio Collateral Balance will be deemed to equal the greater of (i) the Net Outstanding Portfolio Collateral Balance at such time and (ii) U.S.\$1,500,000,000. As a result, in the event that the Net Outstanding Portfolio Collateral Balance has been reduced (through distribution of Principal Proceeds or losses) to less than U.S.\$1,500,000,000, the percentage concentration limits in these Eligibility Criteria will be applied with respect to reinvestment of Principal Proceeds as if such reduction did not occur.

In the case of a commitment made after the Closing Date, if the Issuer has made a commitment to Acquire a security, then the Eligibility Criteria need not be satisfied when the Issuer Grants such security to the Trustee if (A) the Issuer Acquires such security within, in the case of new issuances of mortgage-backed securities, 45 days, and otherwise, 30 days, after making the commitment to Acquire such security and (B) the Eligibility Criteria were satisfied immediately after the Issuer made such commitment. With respect to paragraphs (2), (5), (18) through (19), (21) through (24), (26) through (32) and (35) through (39) above, if at any time during the Reinvestment Period any requirement set forth therein is not satisfied immediately prior to the Acquisition of the related securities, such requirement is deemed satisfied if the extent of non-compliance with such requirement is not made worse after giving effect to such Acquisition.

If the Issuer at any time does not satisfy any of the Eligibility Criteria, the Issuer's Acquisitions of Collateral Debt Securities will be limited as described above, but the Issuer will not be required to Dispose of any Collateral Debt Security in order to bring itself into compliance with the Eligibility Criteria except in the limited circumstances describe under "—Dispositions of Collateral Debt Securities." After the Reinvestment Period, it is very likely that the Issuer will not be in compliance with all of the Eligibility Criteria.

In the case of an investment by the Issuer in a Synthetic Security, the Eligibility Criteria will be applicable to the Reference Obligation rather than to the Synthetic Security or the Synthetic Security Collateral, except that, to the extent provided above and for purposes of certain of the Collateral Quality Tests, the Eligibility Criteria will take into account the terms of the Synthetic Security. See "—Synthetic Securities." Upon the termination of a Synthetic Security, any Synthetic Security Collateral in a Synthetic Security Counterparty Account that does not consist of cash or Eligible Investments and which is not liquidated in connection with the termination of the Synthetic Security will be transferred to the Custodial

Account and held therein as Collateral Debt Securities and Disposed of only in accordance with "—Disposition of Collateral Debt Securities."

Notwithstanding the foregoing provisions, if an Event of Default shall have occurred and be continuing, no Collateral Debt Security may be Acquired by the Issuer unless it was the subject of a commitment entered into by the Issuer prior to the occurrence of such Event of Default or is a Deliverable Obligation delivered to the Issuer pursuant to a Synthetic Security. After the Reinvestment Period ends, no Collateral Debt Security may be Acquired by the Issuer unless it was the subject of a commitment entered into by the Issuer prior to the end of the Reinvestment Period, or it is a Hedge Rebalancing Purchase or is a Deliverable Obligation delivered to the Issuer pursuant to a Synthetic Security.

## **Asset-Backed Securities**

### General

Most of the Collateral Debt Securities (and the Reference Obligations under the Synthetic Securities) will consist of Asset-Backed Securities, including, without limitation, ABS CDO Securities, Bespoke CDO Securities, ABS REIT Debt Securities, Automobile Securities, CMBS Conduit Securities, CMBS Credit Tenant Lease Securities, CMBS Large Loan Securities, Corporate CDO Securities, Credit Card Securities, Home Equity Loan Securities, Residential A Mortgage Securities, Residential B/C Mortgage Securities, Small Business Loan Securities, Student Loan Securities and Subprime Automobile Securities. "Asset-Backed Securities" are obligations or securities that entitle the holders thereof to receive payments that depend primarily on the cash flow from a specified pool of (a) financial assets, either static or revolving, that by their terms convert into cash within a finite time period, together with rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such securities or (b) real estate mortgages, either static or revolving, together with rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such securities; *provided* that, in the case of clause (b), such Asset-Backed Securities do not entitle the holders to a right to share in the appreciation in value of or the profits generated by the related real estate assets.

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

An Asset-Backed Security is created by the sale of assets or collateral to a conduit, which becomes the legal issuer of the Asset-Backed Securities. The securitization conduit or issuer is generally a bankruptcy-remote vehicle such as a grantor trust or, in the case of an asset-backed commercial paper program, a special-purpose entity. The sponsor or originator of the collateral usually establishes the issuer. Interests in the trust, which embody the right to certain cash flows arising from the underlying assets, are then generally sold in the form of securities to investors through an investment bank or other securities underwriter. Each Asset-Backed Security typically has a servicer (often the originator of the

collateral) that is responsible for collecting the cash flows generated by the securitized assets—principal, interest and fees net of losses and any servicing costs as well as other expenses—and for passing them along to the investors in accordance with the terms of the securities. The servicer normally processes the payments and administers the borrower accounts in the pool.

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

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

Holders of Asset-Backed Securities bear various risks, including credit risk, liquidity risk, interest rate risk, market risk, operations risk, structural risk and legal risk. The structure of an Asset-Backed Security and the terms of the investors' interest in the collateral can vary widely depending on the type of collateral, the desires of investors and the use of credit enhancements. Although the basic elements of all Asset-Backed Securities are similar, individual transactions can differ markedly in both structure and execution. Important determinants of the risk associated with issuing or holding the securities include the process by which principal and interest payments are allocated and down-streamed to investors, how credit losses affect the trust and the return to investors, whether collateral represents a fixed set of specific

assets or accounts, whether the underlying collateral assets are revolving or closed-end, under what terms (including maturity of the asset-backed instrument) any remaining balance in the accounts may revert to the issuing company and the extent to which the company that is the actual source of the collateral assets is obligated to provide support to the trust or conduit or to the investors. Further issues may arise based on discretionary behavior of the issuer within the terms of the securitization agreement, such as voluntary buybacks from, or contributions to, the underlying pool of loans when credit losses rise. A bank or other issuer or sponsor may play more than one role in the securitization process. An issuer can simultaneously serve as originator of loans, servicer, administrator of the trust, underwriter, provider of liquidity and credit enhancer. Issuers typically receive a fee for each element of the transaction they undertake. Institutions Acquiring Asset-Backed Securities should recognize that the multiplicity of roles that may be played by a single firm—within a single securitization or across a number of them—means that credit and operational risk can accumulate into significant concentrations with respect to one or a small number of firms.

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

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

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

accumulates to its predetermined level, the excess yield reverts to the issuer. Under generally accepted accounting principles ("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 occurred in 1996 and 1997 with the rise in reported delinquencies and losses on securitized pools of credit cards. Liquidity can also become a major concern for asset-backed commercial paper programs if concerns about credit quality, for example, lead investors to avoid the commercial paper issued by the relevant special-purpose entity. For these cases, the securitization transaction may include a "liquidity

facility," which requires the facility provider to advance funds to the relevant special-purpose entity should liquidity problems arise. To the extent that the bank originating the loans is also the provider of the liquidity facility, and that the bank is likely to experience similar market concerns if the loans it originates deteriorate, the ultimate practical value of the liquidity facility to the transaction may be questionable. Operations risk arises through the potential for misrepresentation of loan quality or terms by the originating institution, misrepresentation of the nature and current value of the assets by the servicer and inadequate controls over disbursements and receipts by the servicer.

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

RMBS may have structural characteristics that distinguish them from other Asset-Backed Securities. The rate of interest payable on RMBS may be set or effectively capped at the weighted average net coupon of the underlying mortgage loans themselves, often referred to as an "available funds cap." As a result of this cap, the return to investors is dependent on the relative timing and rate of delinquencies and prepayments of mortgage loans bearing a higher rate of interest. In general, early prepayments will have a greater impact on the yield to the Issuer on such RMBS. Federal and state law may also affect the return to investors by capping the interest rates payable by certain mortgagors. Most of the RMBS which the Issuer may purchase are subject to such available funds caps or other caps on the interest rate payable to holders of such securities. The effect of such caps is to reduce the rate at which interest is paid to the holders of such securities (including the Issuer), which would have an adverse effect on the Issuer's ability to pay interest on the Notes and to make distributions on the Preferred Securities.

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

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

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



secured creditors, and cannot accelerate a claim for payment on their securities, or force a sale of the mortgage loan pool in the event that insufficient funds exist to pay such amounts on any date designated for such payment. The sole remedy available to such securityholders would be removal of the servicer of the mortgage loans.

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

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

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

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

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

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

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

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

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

#### Specified Types

For purposes of determining compliance with the Eligibility Criteria set forth above, the Asset-Backed Securities to be pledged to the Trustee on and after the Closing Date are divided into Specified Types, which are defined below.

Subject to compliance with the Eligibility Criteria and certain other limitations described herein, the Issuer may invest in (or designate as Reference Obligations under Synthetic Securities) the following Specified Types of Asset-Backed Securities (each, a "Specified Type"): ABS CDO Securities, ABS REIT Debt Securities, Automobile Securities, Bespoke CDO Securities, CDO Commercial Real Estate Securities, CDO of CDO Securities, CLO Security, CMBS Conduit Securities, CMBS Credit Tenant Lease Securities, CMBS Large Loan Securities, Corporate CDO Securities, Credit Card Securities, Home Equity Loan Securities, Market Value CDO Security, Residential A Mortgage Securities, Residential B/C Mortgage Securities, Small Business Loan Securities, Student Loan Securities and Subprime Automobile Securities and certain other Specified Types of Asset-Backed Securities that the Issuer may designate from time to time for inclusion in the Pledged Collateral Debt Securities if the Rating Condition has been satisfied with respect to such designation and the Credit Default Swap Counterparty has consented to such designation.

The Issuer may not invest in (or designate as Reference Obligations under Synthetic Securities) the following Specified Types of securities (the "Prohibited Securities"): Aerospace and Defense Security, Manufactured Housing Security, Aircraft Lease Security, Car Rental Receivable Security, Franchise Security, Healthcare Security, High Yield CDO Securities, Mutual Fund Security, NIM Security, Oil and Gas Security, Project Finance Security, Recreational Vehicle Security, Restaurant and Food Services Security, Shipping Security, Structured Settlement Security, Tax Lien Security, Chassis Leasing Security, Container Leasing Security, Lottery Receivable Security, Tobacco Litigation Security or Trust Preferred CDO Securities. For the avoidance of doubt, the Collateral Debt Securities acquired by the Issuer on the Closing Date will be excluded from this definition of Prohibited Securities.

### **Synthetic Securities**

At least 75% of the Aggregate Principal Balance of the Collateral Debt Securities is expected to consist of Credit Default Swaps entered into by the Issuer with MLI. Each Synthetic Security will consist of a credit default swap, a total return swap or a combination of the foregoing. On the Closing Date, the Issuer expects to enter into (or commit to enter into) Synthetic Securities with MLI, consisting of Credit Default Swaps with an aggregate notional amount equal to approximately U.S.\$1,290,000,000 (or approximately 86% of the Net Outstanding Portfolio Collateral Balance. The Reference Obligations related to the Credit Default Swaps are expected to be primarily RMBS, CMBS and CDO Obligations. The Issuer may enter into additional Synthetic Securities after the Closing Date until the end of the Reinvestment Period. Each Credit Default Swap shall constitute a "Synthetic Security" for all purposes of the Indenture. The term "Credit Default Swap" includes Unhedged Long Credit Default Swaps, Hedged Long Credit Default Swaps and Hedging Short Credit Default Swaps.

A Credit Default Swap pursuant to which the Issuer is acting as a seller of protection with respect to the related Reference Obligation is referred to herein as a "Long Credit Default Swap." The Collateral Manager may, instead of terminating or assigning a Long Credit Default Swap, cause the Issuer to enter into a Short Credit Default Swap under which the Issuer buys protection from MLI with respect to the Reference Obligation of such Long Credit Default Swap (a "Hedging Short Credit Default Swap"). The only Credit Default Swaps that the Issuer may enter are Hedging Short Credit Default Swaps, Hedged Long Credit Default Swaps and Unhedged Long Credit Default Swaps. The Issuer may not enter into Unhedged Short Credit Default Swaps. If the Issuer has entered into a Hedging Short Credit Default Swap, the related Long Credit Default Swap or portion of the Reference Obligation Notional Amount thereof that is subject to the Hedging Short Credit Default Swap is referred to herein as a "Hedged Long Credit Default Swap." A Long Credit Default Swap or portion of Reference Obligation Notional Amount thereof that is not subject to a related Hedging Short Credit Default Swap and is not a Hedged Long Credit Default Swap is referred to herein as an "Unhedged Long Credit Default Swap."

In connection with (or after) the Acquisition of the Credit Default Swaps, the Issuer will grant to MLI a first priority security interest in the CDS Reserve Account, which may be invested in accordance with the terms of the Indenture in Synthetic Security Collateral, and the proceeds of which may be applied to make payments to MLI under the terms of the related Credit Default Swaps.

For purposes of the Weighted Average Coupon Test and the Weighted Average Spread Test, the interest payable with respect to a Synthetic Security shall take into account interest on securities and investments credited to any Synthetic Security Counterparty Account that are not otherwise payable to a Synthetic Security Counterparty, payments to the Issuer under any related total return swap and the Fixed Rate to be paid by a Synthetic Security Counterparty to the Issuer under a Synthetic Security.

For purposes of the Moody's Asset Correlation Test and the Standard & Poor's CDO Monitor Test, unless otherwise specified, (i) a Single Obligation Synthetic Security will be included as a Collateral

Debt Security having the characteristics of the related Reference Obligation (and the issuer thereof will be deemed to be the related Reference Obligor and not the Synthetic Security Counterparty) and (ii) a Multiple Obligation Synthetic Security or an Index Synthetic Security will be included as a Collateral Debt Security having the characteristics of the Synthetic Security. For purposes of the Collateral Quality Tests other than the Moody's Asset Correlation Test and the Standard & Poor's CDO Monitor Test, a Synthetic Security will be included as a Collateral Debt Security having the characteristics of the Synthetic Security and not of the related Reference Obligation(s), Reference Obligor or Synthetic Security Collateral, except that, for purposes of determining the industry with respect to any Synthetic Security for the Standard & Poor's CDO Monitor Test and for purposes of determining the rating of a Credit Default Swap or a Defeased Synthetic Security that is a Single Obligation Synthetic Security, a Synthetic Security will be included as a Collateral Debt Security having the characteristics of the related Reference Obligation(s) or Reference Obligor.

Unless otherwise specified by the applicable Rating Agency in connection with the approval of a Form Approved Synthetic Security or the grant of the Rating Condition for a Synthetic Security, for purposes of the Eligibility Criteria (except as otherwise provided in the Eligibility Criteria) (i) a Single Obligation Synthetic Security will be included as a Collateral Debt Security having the characteristics of the related Reference Obligation (and the issuer thereof will be deemed to be the related Reference Obligor and not the Synthetic Security Counterparty), rather than the Synthetic Security or the Synthetic Security Collateral and (ii) a Multiple Obligation Synthetic Security or an Index Synthetic Security will have the rating applicable to the Synthetic Security and otherwise will be included as having the characteristics of the related Reference Obligations (and the issuers thereof will be deemed to be the related Reference Obligors) with the Principal Balance thereof allocated to each Reference Obligation in the same proportion as each such Reference Obligation bears to the aggregate Principal Balance of such Multiple Obligation Synthetic Security or Index Synthetic Security. The Eligibility Criteria will not apply to any purchase of Synthetic Security Collateral.

The Collateral Manager (on behalf of the Issuer) may apply Uninvested Proceeds, Principal Proceeds and proceeds from any Disposition during the Reinvestment Period to cause the Issuer to Acquire additional Synthetic Securities, by depositing such funds in the CDS Reserve Account or in a Synthetic Security Counterparty Account. In addition, during the Reinvestment Period, the Collateral Manager (on behalf of the Issuer) may apply CDS Principal Proceeds to Acquire one or more replacement Credit Default Swaps by no later than the Determination Date for the third Distribution Date succeeding the Due Period during which the CDS Principal Receipt Date occurred.

The Issuer will not Acquire any Credit Default Swap (or any other Synthetic Security which is not a Defeased Synthetic Security) unless, immediately after giving effect to such Acquisition, (a) the sum of (i) the Aggregate Undrawn Amount *plus* (ii) the Balance of all Eligible Investments in the CDS Reserve Account standing to the credit of the Reserve Account (other than any portion thereof that is investment income or that has irrevocably been designated for withdrawal therefrom as Principal Proceeds) is greater than or equal to (b) the aggregate Remaining Exposure under all Credit Default Swaps immediately after giving effect to such Acquisition.

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

The Credit Default Swaps, the Total Return Swap and the Class A-1 Swap will be made pursuant to a single 1992 ISDA Master Agreement (the "ISDA Master Agreement") between the Issuer and MLI.

The following is a summary of certain terms of the Credit Default Swaps which the Issuer will enter into with MLI on the Closing Date. Subsequent to the Closing Date the Issuer may amend the terms

of the Credit Default Swaps and other Synthetic Securities which it entered into on the Closing Date and may enter into additional Synthetic Securities on terms that differ in material respects from the terms summarized herein.

All of the Credit Default Swaps entered into on the Closing Date will be Single Obligation Synthetic Securities. After the Closing Date, the Issuer also may enter into Index Synthetic Securities and other Multiple Obligation Synthetic Securities. However, unless a CDS Replacement has occurred, the Issuer may not enter into any Synthetic Securities other than the Credit Default Swaps and Defeased Synthetic Securities, without the prior written consent of the Credit Default Swap Counterparty.

### **The Credit Default Swaps**

Each Credit Default Swap Transaction will be entered into under a separate trade confirmation in the form attached to a master confirmation and constitute a separate transaction thereunder. The Credit Default Swaps which the Issuer will enter into (or commit to enter into) on the Closing Date will be documented based on the forms of the "Credit Derivative Transaction on Mortgage-Backed Security With Pay As You Go or Physical Settlement (Form 1) (Dealer Form)" template confirmations published in January 2006, as amended in April 2006, by the International Swaps and Derivatives Association, Inc. ("ISDA") that each relate to RMBS and CMBS securities (a "MBS PAUG Credit Default Swap"), with the elections set forth below under "—Terms of Credit Default Swaps" and certain important modifications. In addition, the Issuer may also enter into Credit Default Swaps based on the form of the "Credit Derivative Transaction on Asset-Backed Security With Pay As You Go or Physical Settlement (Dealer Form)" template confirmation published in June 2006, as amended, by ISDA that relate to CDO Obligations (a "CDO PAUG Credit Default Swap"), with the elections set forth below under "—Terms of Credit Default Swaps" and certain important modifications. The Credit Default Swaps made on the Closing Date will be both Form Approved Synthetic Securities and Single Obligation Synthetic Securities. With respect to the Long Credit Default Swaps, the initial Form Approved Synthetic Security master confirmations that the Issuer will enter into (or commit to enter into) with the Credit Default Swap Counterparty on the Closing Date are attached as Exhibits C and D hereto.

Both the MBS PAUG Credit Default Swap and the CDO PAUG Credit Default Swap have a pay-as-you-go settlement format with a physical settlement option. The discussion below assumes that each Credit Default Swap will be in the form of a MBS PAUG Credit Default Swap. The CDO PAUG Credit Default Swap related to CDO Obligations will be substantively similar to the MBS Pay As You Go Confirmation, with the differences summarized below under "—Terms of CDO PAUG Credit Default Swaps." The Issuer may, however, enter into other Credit Default Swaps that may have terms different from those described below, so long as the Rating Condition has been satisfied.

Each Credit Default Swap will be subject to and incorporate the 2003 ISDA Credit Derivatives Definitions, as published by ISDA, as such definitions may be modified in a Form-Approved Synthetic Security ("Credit Derivatives Definitions").

Each Credit Default Swap will permit the Credit Default Swap Counterparty to elect physical settlement upon the occurrence of a Credit Event thereunder by delivery of a Deliverable Obligation to the Issuer, requiring the Issuer to pay the principal amount of the Reference Obligation to the Credit Default Swap Counterparty unless, with respect to a Failure to Pay Principal or Writedown, the Credit Default Swap Counterparty elects that the Issuer instead pay Floating Amounts.

Each Credit Default Swap will generally terminate on the last to occur of (a) the fifth Business Day following the scheduled termination date of the Credit Default Swap or the Final Amortization Date, whichever is earlier (the "Effective Maturity Date"), (b) the last date on which any Floating Amounts will

be paid pursuant to the Credit Default Swap, (c) the last date on which a Deliverable Obligation will be delivered and (d) the last date on which any Principal Reimbursements and Interest Reimbursements will be made.

Terms of Credit Default Swaps. The "credit events" ("Credit Events") applicable to each Credit Default Swap will be:

1. "Failure to Pay Principal." This Credit Event will occur upon the occurrence of the following:

(i) a failure by the Reference Obligor (or any insurer thereof) to pay an expected amount of principal 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 amount of principal that is less than the expected amount of principal.

For purposes of the foregoing, "Final Amortization Date" means the first to occur of (i) the date on which the Reference Obligation Notional Amount of the Credit Default Swap 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.

2. "Writedown." This Credit Event will occur if at any time any of the following occurs:

(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 (however 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 of the Reference Obligation; 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 Credit Default Swap Counterparty in its capacity as calculation agent.

For purposes of the foregoing, "Implied Writedown Amount" means, (a) if the Underlying Instruments relating to the Reference Obligation do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in clause (i) above to occur in respect of the Reference Obligation, on any Reference Obligation Payment Date, an amount determined by the Credit Default Swap Counterparty in its capacity as calculation agent equal to the excess, if any, of the "implied writedown" for the interest accrual period relating to the current Reference Obligation payment date over the "implied writedown" for the immediately preceding interest accrual period and (b) in any other case, zero. In the MBS PAUG Credit Default Swap, the Credit Default Swap Counterparty acting in its role as calculation agent determines, for each related calculation period, an "implied writedown" which is an amount greater than zero equal to the product of (x) the Implied Writedown Percentage and (y) the lesser

of (1) the outstanding principal amount of debt that ranks pari passu in the Reference Obligation's capital structure *plus* the outstanding principal amount of the Reference Obligation (the "Pari Passu Amount") and (2) the Pari Passu Amount *plus* the outstanding principal amount of all senior debt in the same capital structure minus the aggregate outstanding asset pool balance securing the payment obligations on the Reference Obligation (based upon the most recent servicer report), calculated based on the face amount of the assets then in such pool, whether or not any such asset is performing. The "Implied Writedown Percentage" means (i) the outstanding principal balance of the Reference Obligation divided by (ii) the Pari Passu Amount.

3. "Distressed Ratings Downgrade."

This Credit Event will occur if the Reference Obligation:

(i) if publicly rated by Moody's, (A) is downgraded to "Caa2" or below by Moody's or (B) has the rating assigned to it by Moody's withdrawn and, in either case, not reinstated within five business days of such downgrade or withdrawal; *provided* that if such Reference Obligation was assigned a public rating of "Baa3" or higher by Moody's immediately prior to the occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "Caa1" by Moody's within three calendar months of such withdrawal; or

(ii) if publicly rated by Standard & Poor's, (A) is downgraded to "CCC" or below by Standard & Poor's or (B) has the rating assigned to it by Standard & Poor's withdrawn and, in either case, not reinstated within five business days of such downgrade or withdrawal; *provided* that if such Reference Obligation was assigned a public rating of "BBB-" or higher by Standard & Poor's immediately prior to the occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "CCC+" by Standard & Poor's within three calendar months of such withdrawal; or

(iii) if publicly rated by Fitch, (A) is downgraded to "CCC" or below by Fitch or (B) has the rating assigned to it by Fitch withdrawn and, in either case, not reinstated within five business days of such downgrade or withdrawal; *provided* that if such Reference Obligation was assigned a public rating of "BBB-" or higher by Fitch immediately prior to the occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "CCC+" by Fitch within three calendar months of such withdrawal.

Credit Events under each Credit Default Swap will be physically settled at the option of the Credit Default Swap Counterparty; *provided* that, in the case of a Writedown or Failure to Pay Principal, the Credit Default Swap Counterparty may instead elect to receive a Floating Amount from the credit protection seller. Upon the occurrence of a Distressed Ratings Downgrade, the Credit Default Swap Counterparty may elect physical settlement but the Issuer will not be required to pay Floating Amounts based on that Credit Event. Multiple Credit Event Notices may be delivered by the Credit Default Swap Counterparty with respect to each Credit Default Swap.

In the event that the Credit Default Swap Counterparty elects to deliver a credit event notice in respect of a Credit Event, a Credit Default Swap may be considered a Defaulted Synthetic Security, and therefore a Defaulted Security. In certain cases, a ratings downgrade will trigger a Credit Event under a Credit Default Swap that might not result in a Reference Obligation's being classified as a Defaulted Security if such Reference Obligation were held directly by the Issuer.

As well as the Credit Events that trigger physical settlement described above, each Credit Default Swap requires the Issuer to pay floating amounts in amounts equal to (subject to any adjustments set forth

in the relevant confirmation to reflect any applicable percentage or reference price) any Principal Shortfall Amounts, Writedown Amounts and Interest Shortfall Payment Amounts under the Reference Obligation upon the occurrence of, respectively, a Failure to Pay Principal, Writedown or Interest Shortfall (any such payment, a "Floating Amount"). A Credit Default Swap may, therefore, in some respects, be more akin to a total return swap than a credit default swap, although in the case of a Writedown or Failure to Pay Principal or (solely with respect to a CDO PAUG Credit Default Swap) Failure to Pay Interest, the Credit Default Swap Counterparty may elect to deliver a Credit Event Notice in respect thereof (in which case, the relevant Credit Default Swap will be physically settled).

Each Credit Default Swap will specify whether the amount payable by the Issuer in respect of an Interest Shortfall Payment Amount will be subject to any cap. If "Fixed Cap" is applicable, then the Interest Shortfall Payment Amount will reduce the Fixed Amount paid by the Credit Default Swap Counterparty to zero, but the Issuer will not pay any additional amount to the Credit Default Swap Counterparty. The Credit Default Swaps which the Issuer will enter into on the Closing Date are expected to provide that "Fixed Cap" is applicable, but the Issuer may enter into Credit Default Swaps after the Closing Date to which a different cap or no cap is applicable.

Floating Amounts paid by the Issuer will be contingent insofar as the Credit Default Swap Counterparty will be required to reimburse all or part of such Floating Amounts to the Issuer (any such reimbursement, (a) if made in respect of an amount received as a result of a Writedown or Failure to Pay Principal, a "Principal Reimbursement" or (b) if made in respect of an amount received as a result of an Interest Shortfall, an "Interest Reimbursement") if they are paid by the Reference Obligor to holders of the Reference Obligation within the earlier of (i) one year after the Effective Maturity Date of the Reference Obligation under such Credit Default Swap and (ii) payment in full of the Notes. However, in the case of an Interest Reimbursement, the Credit Default Swap Counterparty generally will be entitled to receive recovery of any portion of the Interest Shortfall for which it was not compensated by the Issuer before it makes any payment in respect of an Interest Reimbursement to the Issuer.

On each day falling five business days after a Reference Obligation Payment Date where the Reference Obligation is not a U.S. CMBS security, the buyer of protection (with respect to any Credit Default Swap that is a Hedging Short Credit Default Swap, the Issuer, and with respect to any Credit Default Swap that is a Long Credit Default Swap, the Credit Default Swap Counterparty), will be required to pay to the seller of protection with respect to each Credit Default Swap (and not on a portfolio basis) a premium (the "Fixed Amount") equal to the product of (i) if the Reference Obligation is a floating rate security, (a) the applicable Fixed Rate multiplied by (b) an amount equal to (A) the sum of the Reference Obligation Notional Amounts as at a specified time on each day during the related Reference Obligation Calculation Period divided by (B) the actual number of days in the related Reference Obligation Calculation Period multiplied by (c) the actual number of days in the related Reference Obligation Calculation Period divided by 360 or (ii) if the Reference Obligation is a fixed rate security, (a) the applicable Fixed Rate multiplied by (b) the Reference Obligation Notional Amount outstanding on the last day of the related Reference Obligation Calculation Period (as adjusted for any increases or decreases in the Reference Obligation Notional Amount on the Reference Obligation Payment Date immediately preceding the Reference Obligation Payment Date related to such Fixed Amount) multiplied by (c) the actual number of days in the related Reference Obligation Calculation Period divided by 360. Where the Reference Obligation is a U.S. CMBS security, the buyer of protection will pay the seller of protection the Fixed Amount on the 25th calendar day of the next following month after the Reference Obligation Payment Date.

Each MBS PAUG Credit Default Swap may provide for an election by the Credit Default Swap Counterparty that the "WAC Cap Interest Provision" is not applicable.



The Credit Default Swaps are expected to provide that the "step-up" provisions in the MBS PAUG Credit Default Swap will be applicable. Under the step-up provisions, the Credit Default Swap Counterparty as buyer of protection under the Credit Default Swap may elect to either terminate the Credit Default Swap or increase the Fixed Rate related to the Fixed Amount that it pays periodically to the Issuer if the Reference Obligor or a third party fails to exercise, in accordance with the Underlying Instruments, a "clean up call" or other right to purchase, redeem, cancel or terminate (however described in the Underlying Instruments) the Reference Obligation which failure results in an increase in Reference Obligation coupon. If the Credit Default Swap Counterparty does not deliver a notice that it is terminating the Credit Default Swap by the fifth business day after it receives notice of a step-up of the Reference Obligation coupon, it will be deemed to have elected to continue the Credit Default Swap at the increased Fixed Rate. The Issuer is required to make the same election under a Hedging Short Credit Default Swap as the Credit Default Swap Counterparty makes under the related Hedged Long Credit Default Swap.

Terms of CDO PAUG Credit Default Swaps. The Issuer and MLI may also enter into CDO PAUG Credit Default Swaps which are Form Approved Synthetic Securities which relate to Reference Obligations that are CDO Obligations. The CDO PAUG Credit Default Swaps will be substantively similar to the MBS PAUG Credit Default Swap, except that (1) the "WAC Cap Interest Provision" is not in the CDO PAUG Credit Default Swap (and therefore cannot be elected as being applicable or inapplicable) and (2) there is no "step-up" provision.

In addition, unlike the MBS PAUG Credit Default Swap, the CDO PAUG Credit Default Swap provides that the parties may elect not to apply "implied writedown" as a Credit Event or a "Floating Amount Event." The CDO PAUG Credit Default Swap includes an additional Credit Event, Failure to Pay Interest, which allows the Credit Default Swap Counterparty (at its option) to physically settle the Credit Default Swap. If the related Reference Obligation is a PIKable Reference Obligation, the Credit Default Swap Counterparty may not elect to physically settle the Failure to Pay Interest Credit Event until a period of 360 calendar days has elapsed since the occurrence of the Interest Shortfall giving rise to the Failure to Pay Interest Credit Event during which period the Interest Shortfall has not been reimbursed in full.

Another substantive difference between the CDO PAUG Credit Default Swap and the MBS PAUG Credit Default Swap is the way in which an "implied writedown" is determined. In the CDO PAUG Credit Default Swap, the Credit Default Swap Counterparty acting in its role as calculation agent under the Credit Default Swap determines an "implied writedown" by reference to the reported overcollateralization ratio in the servicer report for the Reference Obligation, *provided* that if the overcollateralization ratio for the Reference Obligation is not reported there, the Credit Default Swap Counterparty in its capacity as calculation agent may use the overcollateralization ratio in the servicer report for a senior obligation of the same Reference Obligor and, if not there, the Credit Default Swap Counterparty in its capacity as calculation agent may use the overcollateralization ratio in the servicer report for a junior obligation of the same Reference Obligor. If none of these yield a result, then the Credit Default Swap Counterparty in its capacity as calculation agent determines whether an "implied writedown" has occurred on the same basis as in the MBS PAUG Credit Default Swap. The overcollateralization ratio in the servicer report generally will take into account the "haircuts" on assets provided in the indenture for the Reference Obligation (on assets that have been downgraded, have "PIKed", have defaulted or were purchased at a discount), which will make an Implied Writedown more likely to occur on the Reference Obligation.

Reference Obligation Notional Amount. The Reference Obligation Notional Amount of a Credit Default Swap may be greater or less than the outstanding principal amount of the related Reference Obligation. Following the effective date of the Credit Default Swap, the Reference Obligation Notional

Amount will be reduced to reflect CDS Principal Payments, Floating Amounts paid following any Failure to Pay Principal and any Writedown and each Exercise Amount in connection with a physical settlement following a Credit Event and increased by any Principal Reimbursements in respect of Failures to Pay Principal or Writedowns.

Remaining Exposure. For the purpose of all calculations made under the Indenture or under the Class A-1 Swap which are based on the Remaining Exposure under the Credit Default Swaps, the Trustee and the Issuer will assume that the Remaining Exposure is the amount (if positive) equal to (as calculated by the Collateral Manager based solely on information available to it from third party sources (including Bloomberg Financial Markets Commodities News) which information the Collateral Manager shall have no duty or obligation to verify) (i) the Remaining Exposure shown on the most recent report delivered by the Collateral Manager to the Issuer and the Trustee (unless subsequent thereto the Credit Default Swap Counterparty provides a report to the Issuer and the Trustee, in which case, it would be the amount in such report) plus (ii) the aggregate initial Reference Obligation Notional Amount of all Credit Default Swaps which the Issuer entered into since the date of such report plus (iii) the sum of any Principal Reimbursements paid to the Issuer under Unhedged Long Credit Default Swaps since the date of such report minus (iv) the aggregate Reference Obligation Notional Amount of all Credit Default Swaps which the Issuer disposed of since the date of such report. Alternatively, the Trustee or the Issuer may request a statement from the Credit Default Swap Counterparty of the Remaining Exposure and may rely on such statement in making any calculation under the Indenture.

Settlement. A Credit Default Swap will be physically settled if the Credit Default Swap Counterparty delivers a Credit Event Notice electing to physically settle the Credit Default Swap. Only the Credit Default Swap Counterparty may deliver a Credit Event Notice and, if it delivers a Credit Event Notice, in most cases in order to initiate physical settlement the Credit Default Swap Counterparty must also deliver a Notice of Publicly Available Information and a Notice of Physical Settlement to the Issuer. Upon settlement of a Credit Default Swap on the Physical Settlement Date, the Credit Default Swap Counterparty will deliver to the Issuer the Deliverable Obligation specified in the Notice of Physical Settlement and the Issuer will pay to the Credit Default Swap Counterparty the Physical Settlement Amount that corresponds to the Deliverable Obligation that the Credit Default Swap Counterparty has delivered. Each Credit Default Swap will provide that the Credit Default Swap Counterparty, when providing a Notice of Physical Settlement, may specify an amount (the "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); in that case, the rights and obligations of the parties under the Credit Default Swap will continue and the Credit Default 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.

In addition, each Credit Default Swap will provide that only the related Reference Obligation may constitute a Deliverable Obligation. The definition of "Collateral Debt Security" includes Deliverable Obligations that are CDO Obligations or Other ABS. Accordingly, upon receipt of Deliverable Obligations the Issuer may hold Deliverable Obligations as Collateral Debt Securities and such Deliverable Obligations will be subject to the provisions relating to the Disposition of Collateral Debt Securities set forth herein. See "—Dispositions of Collateral Debt Securities."

However, in the event that the Credit Default Swap Counterparty delivers a Credit Event Notice related to a Long Credit Default Swap in which there is a related Hedging Short Credit Default Swap, the Issuer will be deemed to deliver a Credit Event Notice under such Hedging Short Credit Default Swap. With respect to such event, the payment or delivery obligation of the Credit Default Swap Counterparty under the Long Credit Default Swap will be netted against the payment or delivery obligation of the

Issuer under the Hedging Short Credit Default Swap. Therefore, if the Credit Default Swap Counterparty were required to deliver a Deliverable Obligation to the Issuer under the Long Credit Default Swap and the Issuer were required to deliver a Deliverable Obligation under the related Hedging Short Credit Default Swap, neither party would deliver such Deliverable Obligation and each party's obligation to deliver such Deliverable Obligation and to pay the Physical Settlement Amount would be satisfied.

The "Physical Settlement Amount" will generally be an amount equal to (a) the product of the Exercise Amount and an agreed reference price (which is currently expected to be 100%) minus (b) the sum of: (i) the product of (A) the aggregate of all Implied Writedown Amounts with respect to the relevant Reference Obligation (which have not been reimbursed) determined immediately prior to the relevant delivery and (B) the relevant Exercise Percentage *plus* (ii) the product of (A) the aggregate principal amount of the Reference Obligation which is subject to a Credit Event described within paragraph (i)(B) of the definition of "Writedown" under "—The Credit Default Swaps" (as the same has been reduced by any reimbursement obligations of the Credit Default Swap Counterparty under the relevant Credit Default Swap) and (B) the relevant Exercise Percentage. For purposes of the foregoing, "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 of the Reference Obligation minus (ii) the aggregate of the original face amount of all Deliverable Obligations specified in all previously delivered Notices of Physical Settlement.

Where the Credit Default Swap Counterparty has delivered a Notice of Physical Settlement but does not deliver in full the Deliverable Obligations (including, without limitation, as a result of the illegality or impossibility of physical settlement) on or prior to the physical settlement date, such Notice of Physical Settlement shall be deemed not to have been delivered.

Intermediation. The Issuer may only enter into Credit Default Swaps with MLI, unless a CDS Replacement has occurred. The Collateral Manager may obtain bids from Eligible Dealers solicited by it to enter into back-to-back credit default swap transactions with MLI on the same terms described herein, at a quoted fixed rate that is better than the Fixed Rate at which MLI is willing to enter into a Credit Default Swap relating to the same Reference Obligation. In that event, the Credit Default Swap Counterparty is not obligated to enter into a credit default swap transaction with the Eligible Dealer. If the Credit Default Swap Counterparty in its sole discretion elects to enter into a Credit Default Swap with the Issuer and a back-to-back hedging transaction with the Eligible Dealer, the fixed rate premium received by the Credit Default Swap Counterparty under a back-to-back hedging transaction related to a Long Credit Default Swap will exceed the Fixed Rate payable by the Credit Default Swap Counterparty to the Issuer under such related Long Credit Default Swap and the fixed rate premium payable by the Credit Default Swap Counterparty under a back-to-back hedging transaction related to a Hedging Short Credit Default Swap will be less than the Fixed Rate received by the Credit Default Swap Counterparty from the Issuer under such related Hedging Short Credit Default Swap, in each case, by an amount representing an intermediation fee ("Intermediation Fee") of 0.03% per annum (or a different amount agreed upon by the Issuer and the Credit Default Swap Counterparty) payable to the Credit Default Swap Counterparty.

Termination or Assignment of Credit Default Swaps. The Issuer may terminate or assign a Credit Default Swap under the circumstances and subject to the conditions described under "—Dispositions of Collateral Debt Securities." The assignment payment payable in connection with an assignment of a Credit Default Swap will be based on the amount (if any) payable by the Issuer to an Eligible Dealer or by an Eligible Dealer to the Issuer, as applicable. In connection with the termination of a Credit Default Swap, the amount owed by or payable to the Issuer will be determined by the Credit Default Swap

Counterparty pursuant to the standard ISDA termination methodology. See "Credit Default Swaps—Liquidation Procedures."

*Hedging of Long Credit Default Swaps.* The Collateral Manager may, instead of terminating or assigning a Credit Default Swap, cause the Issuer to enter into a Hedging Short Credit Default Swap in respect of any Long Credit Default Swap that is a Defaulted Security, Written Down Security, Credit Improved Security or Credit Risk Security or as a Discretionary Disposition of any Long Credit Default Swap, subject to the conditions set forth in "—Dispositions of Collateral Debt Securities." The Issuer will not have the right to deliver a Credit Event Notice or a Notice of Physical Settlement under a Hedging Short Credit Default Swap, but if the Credit Default Swap Counterparty gives such a notice, the obligations of the Issuer and the Credit Default Swap Counterparty under the Hedging Short Credit Default Swap and the Hedged Long Credit Default Swap will be set off. The Issuer may only enter into Hedging Short Credit Default Swaps with MLI, unless a CDS Replacement has occurred. If the Collateral Manager and MLI cannot agree on the terms (including the Fixed Rate) of a Hedging Short Credit Default Swap, MLI will have no obligation to enter into such Hedging Short Credit Default Swap. The Collateral Manager may obtain bids from Eligible Dealers selected by it to enter into a back-to-back credit default swap transaction with MLI on the same terms described herein at a quoted fixed rate that is better than the Fixed Rate at which MLI is willing to enter into the proposed Hedging Short Credit Default Swap. In that event the Credit Default Swap Counterparty is not obligated to enter into a credit default swap transaction with the Eligible Dealer, but if the Credit Default Swap Counterparty elects in its sole discretion to enter into such a transaction, it will charge the Intermediation Fee.

*Liquidation Procedures.* Upon the occurrence of a Redemption Termination Event, the Issuer and the Credit Default Swap Counterparty will use the liquidation procedures (the "Liquidation Procedures") to determine the aggregate amount which the Credit Default Swap Counterparty (or an Eligible Dealer) or the Issuer would pay (or be paid) in order to terminate or replace the Credit Default Swaps on a date that would satisfy the redemption or liquidation procedures for the Collateral in the Indenture (the "Swaps Liquidation Date"). Under the Liquidation Procedures, the Credit Default Swap Counterparty will specify the swap termination payment which the Credit Default Swap Counterparty would pay to the Issuer or the swap termination payment that the Issuer would be required to pay to the Credit Default Swap Counterparty (calculated as if the Issuer were the "defaulting party" or the "affected party" and using the standard "Loss" methodology specified in the 1992 ISDA Master Agreement) if all obligations of the parties under the Credit Default Swaps were to terminate (the "Swap Termination Payment"). The Collateral Manager on behalf of the Issuer will either accept such Swap Termination Payment (if the requirements under the Indenture for the redemption of the Notes or the liquidation of the Collateral have been satisfied) or reject such Swap Termination Payment. If the Collateral Manager accepts the Swap Termination Payment, (x) the Issuer will enter into a binding agreement with the Credit Default Swap Counterparty providing for termination of the Issuer's obligations under the Credit Default Swaps and the related payments and (y) the Credit Default Swap Counterparty will pay such Swap Termination Payment to the Issuer or the Issuer will pay the Swap Termination Payment to the Credit Default Swap Counterparty (as applicable) on the Swaps Liquidation Date and, upon such payment all obligations of the parties with respect to the Credit Default Swaps will terminate on and as of such Swaps Liquidation Date. If the Collateral Manager rejects the Swap Termination Payment, the Issuer (or the Collateral Manager on its behalf) may attempt to obtain firm bids with respect to the Credit Default Swaps in whole or with respect to sub-pools of the portfolio of Credit Default Swaps (which, in the aggregate, will comprise the total portfolio of Credit Default Swaps), from Eligible Dealers to replace the Issuer with respect to the Credit Default Swaps. If the Issuer obtains such bids and the aggregate amount to be paid by or to the Eligible Dealers (*plus* amounts due but not yet paid by the Credit Default Swap Counterparty or the Issuer, as applicable) would satisfy the requirements under the Indenture regarding the redemption of the Notes or the liquidation of the Collateral, the Issuer will make any assignment 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 to the Eligible Dealers and, upon such payment all obligations of the Issuer with respect to the Credit Default Swaps will terminate on and as of such Swaps Liquidation Date. If the amount that the Issuer would be paid by or to Eligible Dealers would not result in sufficient funds (after taking into account any amounts due and unpaid by both the Issuer and the Credit Default Swap Counterparty under the Credit Default Swaps) to satisfy the requirements under the Indenture regarding the redemption of the Notes or the liquidation of the Collateral, the valuation procedure described herein will be conducted prior to each subsequent proposed Redemption Date or proposed date for liquidation of the Collateral after an Event of Default.

In accordance with "Security for the Notes—Dispositions of Collateral Debt Securities," if the Collateral Manager on behalf of the Issuer elects to terminate a Credit Default Swap, it will follow the Liquidation Procedures set forth above, *provided* that the procedures will apply to a single Credit Default Swap rather than the portfolio of Credit Default Swaps and the termination date of the Credit Default Swap will be the date specified by the Issuer (or the Collateral Manager on its behalf). The Indenture will not require that a certain amount be received (or paid) by the Issuer as a result of the termination or assignment of a Credit Default Swap. However, if the Issuer (or the Collateral Manager on its behalf) wishes to terminate a Credit Default Swap, the Issuer or the Credit Default Swap Counterparty, as applicable, will be required to pay (or will receive) any termination or assignment payment which the Credit Default Swap Counterparty or the Eligible Dealer, as applicable, determines is payable in accordance with the Liquidation Procedures. Such payment will be made in accordance with the Account Payment Priorities or from a Class A-1 Funding.

The Credit Default Swap Counterparty and the Issuer may modify these procedures without the consent of the Noteholders and the Holders of Preferred Securities.

Replacement Credit Linked Note. Subsequent to the Closing Date, the Issuer may replace, in part, the Credit Default Swaps and the Total Return Swap, with a transaction (a "Replacement Credit Linked Note") with a trust or other special purpose vehicle (the "Credit Linked Note Issuer") which issues a security to the Issuer and enters into Credit Default Swaps with MLI (or an affiliate) and a reinvestment transaction (which may be with MLI or an affiliate or with an entity not affiliated with MLI) relating to the purchase price paid by the Issuer to the Credit Linked Note Issuer. In connection with the Issuer's purchase of the Replacement Credit Linked Note, the Issuer is expected to enter into a supplement to the Indenture to amend the Indenture, inter alia, to revise the Eligibility Criteria to apply to the Credit Default Swaps which the Credit Linked Note Issuer enters into, to provide for the use of funds in the CDS Reserve Account to purchase the Replacement Credit Linked Note and for the use of Class A-1 Payments to make payments related to the Replacement Credit Linked Note, and to make other changes to facilitate the Issuer's purchase of the Replacement Credit Linked Note.

### **The Total Return Swap**

On the Closing Date, MLI and the Issuer will enter into a separate total return swap transaction under the ISDA Master Agreement (the "Total Return Swap") with respect to the Synthetic Security Collateral in the CDS Reserve Account. The purpose of any such Total Return Swap is to provide the Issuer with a return equal to the three-month London interbank offered rate which is likely to be higher than the Issuer would earn if it were to invest the funds in the CDS Reserve Account in Eligible Investments. In accordance with the terms of any such Total Return Swap, MLI will have the right to approve the investment of all funds in the CDS Reserve Account in Synthetic Security Collateral and MLI and the Issuer will enter into a Total Return Swap which references such Synthetic Security Collateral (each security that is subject to the Total Return Swap, a "Reference Security"). Each Reference Security will satisfy certain rating and other requirements set forth in the Total Return Swap.

The Reference Securities in the CDS Reserve Account will be available to satisfy the Issuer's obligations to MLI under any Credit Default Swap. However, the Reference Securities are expected to have very long maturities and therefore, if the Total Return Swap is no longer in effect or if MLI fails to perform its obligations under the Total Return Swap, the Issuer will be exposed to the risk of a decrease in the market value of the Reference Security if the Issuer is required to sell a Reference Security in order to make a payment under a Credit Default Swap.

Initially, the notional amount of any such Total Return Swap will be approximately equal to the amount deposited in the CDS Reserve Account. The notional amount of the Total Return Swap will be reduced by any amount withdrawn from the CDS Reserve Account to pay a Physical Settlement Amount, Floating Amount, Swap Termination Payment, Junior Note Reduction Amount, Class A-1 Principal Payment or Net Issuer Hedged Long Fixed Amount. Upon the termination of (or reduction in the notional amount of) the Total Return Swap (including as a result of a Credit Event or Floating Amount Event, Swap Termination Payment, Junior Note Reduction Amount, Class A-1 Principal Payment or Net Issuer Hedged Long Fixed Amount), the Issuer will deliver a principal amount of the Reference Security equal to the terminated portion of the notional amount of the Total Return Swap to the highest firm bidder against payment to the Issuer from such bidder. MLI, as calculation agent under the Total Return Swaps, will solicit from independent market-makers or other major market participants such firm bids and arrange for settlement of such Reference Security. In addition, the Issuer will pay to MLI the amount by which (i) the liquidation market value of the principal amount of the Reference Security equal to the terminated portion of the Total Return Swap exceeds (ii) the principal amount of the Reference Security being delivered (the amount of such excess, if any, the "Positive Total Return Amount"). If the principal amount of the Reference Security being delivered exceeds the liquidation market value, MLI will pay to the Issuer such difference. If the Issuer fails to deliver the Reference Security, MLI will not be obligated to pay the Issuer any amount and may recover from the Issuer a termination payment in an amount not to exceed the outstanding principal amount of the Reference Security.

The Total Return Swap will also provide for MLI to pay to the Issuer the Total Return Swap LIBOR Payment on each Quarterly Distribution Date. Pursuant to the terms of the Total Return Swap, the Issuer will pay to MLI the Reference Security Interest Distribution with respect to each Reference Security one Business Day following a date on which the Reference Security pays the Reference Security Interest Distribution to a holder of such Reference Security.

To the extent that the CDS Reserve Account Balance increases up to U.S.\$450,000,000, if MLI and the Issuer do not agree to the terms of such increase and the selection of the Reference Security in which the Issuer will invest, MLI will have the right to designate one or more replacement Reference Securities. Similarly, if the principal balance of the Reference Securities in the CDS Reserve Account is reduced by principal payments, redemptions or other similar events or the ratings on a Reference Security fall below certain minimum levels specified in the Total Return Swap, if MLI and the Issuer do not agree promptly on a replacement Reference Security, MLI will have the right to designate one or more replacement Reference Securities. If the principal balance of the Reference Securities in the CDS Reserve Account is reduced by principal payments, redemptions or other similar events (the amount of such reduction, the "Uninvested Principal Amounts"), until either MLI and the Issuer agree to purchase another Reference Security or MLI designates another Reference Security, the Uninvested Principal Amount will be subject to a floating balance transaction (the "Floating Balance Transaction"). The Issuer will invest such Uninvested Principal Amounts in the CDS Reserve Account in Eligible Investments and MLI will continue to pay the Total Return Swap LIBOR Payment on the notional amount of such Floating Balance Transaction. In the event that the Total Return Swap terminates in whole or in part and the notional amount of the Total Return Swap reduces for any reason, the Issuer will not be entitled to receive the Total Return Swap LIBOR Payment on the amount of such reduction or termination of the notional amount and the Issuer will have to rely solely upon the return on such amount which will be

invested in Eligible Investments (or, in the event that the Issuer is able to secure such amount under a TRS Replacement, the return on such amount related to such TRS Replacement).

If any reduction to the aggregate notional amount of the Total Return Swap in the Credit Default Swap does not occur on a Quarterly Distribution Date, the Credit Default Swap Counterparty will calculate a breakage amount (the "LIBOR Breakage Amount") based on the excess of LIBOR calculated at the beginning of the period over interpolated LIBOR from the date of termination to the next Determination Date. If the LIBOR Breakage Amount is negative, the Issuer will pay such amount to MLI and if the LIBOR Breakage Amount is positive, MLI will pay such amount to the Issuer.

If the aggregate notional amount of the Total Return Swap is reduced at any time (including on a Quarterly Distribution Date) by Swap Termination Payments by the Issuer or by transfers of the Reserve Account Excess to the Principal Collection Account and any Discretionary Dispositions or terminations of Credit Default Swaps that are Credit Risk Securities or Credit Improved Securities have occurred during the Due Period or the immediately preceding Due Period, the Issuer will be required to pay to MLI an amount that MLI reasonably determines in good faith to be its net loss incurred as a result of its loss of bargain, cost of funding or termination, liquidation or reestablishment of or entry into one or more hedging transactions or related trading positions, or MLI will be required to pay to the Issuer the amount which MLI reasonably determines in good faith to be its gain, resulting from the reduction in the notional amount of the Total Return Swap (in either case, a "Hedging Amount"). MLI will determine the amount of the gain or loss using the standard valuation methodology in the ISDA Master Agreement based upon "Loss" and "Second Method."

MLI may terminate the Total Return Swap upon the occurrence of any of the following: (i) if at any time the Reference Security Interest Distribution is less than would have been paid to a holder of the Reference Security as a result of withholding taxes, (ii) if the Issuer fails to exercise its voting rights with respect to the Reference Security at the direction of MLI, (iii) the Issuer fails to cooperate to obtain a credit enhancement of the Reference Security or (iv) the notional amount of the Total Return Swap is less than U.S.\$10,000,000 on any date after the Reinvestment Period.

If the Total Return Swap is terminated or to the extent that the CDS Reserve Account Balance exceeds U.S.\$450,000,000, the Issuer will invest funds in the CDS Reserve Account in Eligible Investments or a TRS Replacement and will not be entitled to receive the Total Return Swap LIBOR Payment from MLI.

The Collateral Manager may elect to cause the Issuer to enter into a TRS Replacement (which may be with MLI or another counterparty) which satisfies the Rating Condition, in respect of any or all of the Synthetic Security Collateral in the CDS Reserve Account or in any Synthetic Security Counterparty Account. The Collateral Manager also may elect to invest the funds in a Synthetic Security Counterparty Account in a reinvestment agreement or other Eligible Investments.

### **The ISDA Master Agreement**

The Credit Default Swaps, the Class A-1 Swap and the Total Return Swap with MLI will be governed by the same ISDA Master Agreement. The ISDA Master Agreement will be subject to termination (each, a "ISDA Master Agreement Termination") by the Issuer or MLI upon the occurrence of certain "events of default" and "termination events" specified therein with respect to the other party, including (i) certain events of bankruptcy, insolvency, conservatorship, receivership or reorganization by the Issuer or MLI, (ii) a failure on the part of the Issuer or MLI to make any payment or delivery under a Credit Default Swap or the Total Return Swap within the applicable grace period, (iii) a change in law making it illegal for either the Issuer or MLI to be a party to, or perform an obligation under, the ISDA

Master Agreement or (iv) a merger of the Issuer or MLI where the surviving entity does not assume the obligations under the ISDA Master Agreement, and (v) certain tax events or a change in tax law affecting the Issuer or MLI. MLI also will have the right to terminate the ISDA Master Agreement upon the occurrence of (a) an amendment to the Indenture or (if the Class A-1 Swap Counterparty is not MLI or its affiliate) the Class A-1 Swap without the prior written consent of MLI or (b) a termination of the Class A-1 Swap (if at such time the Class A-1 Swap Counterparty is not MLI or its affiliate and there is a Notional Amount Shortfall greater than zero) or a failure by the Class A-1 Swap Counterparty (which is not MLI or its affiliate) to make a Class A-1 Funding thereunder or (if it does not satisfy the Class A-1 Rating Criteria) to fund the Class A-1 Swap Prefunding Account in an amount required under the Class A Swap (if at such time a Notional Amount Shortfall greater than zero would exist). In the case of an event described in clause (b) MLI may terminate only the Credit Default Swaps and, at its option, in lieu of terminating all of the Credit Default Swaps, MLI may terminate a portion of the Credit Default Swaps such that the Remaining Exposure (after such partial termination) of all Credit Default Swaps does not exceed the Aggregate Undrawn Amount *plus* the CDS Reserve Account Balance.

Under the ISDA Master Agreement, MLI is required to post collateral with the Trustee in an amount calculated in accordance with a formula set forth in the ISDA Master Agreement if neither MLI nor ML&Co. maintains the CDS Required Ratings. On the Closing Date, MLI and ML&Co. do not satisfy the CDS Required Ratings, and MLI will be required to post collateral with the Trustee. Alternatively, MLI (without obtaining the consent of Noteholders, holders of Preferred Securities or the Issuer) may obtain a guarantee of its obligations under the ISDA Master Agreement, assign all of its rights under the ISDA Master Agreement to another party (which would become the Credit Default Swap Counterparty, the Class A-1 Swap Counterparty and the Total Return Swap Counterparty) or take any other action which satisfies the Rating Condition. If in the future neither MLI nor ML&Co. satisfies the CDS Minimum Ratings and MLI does not take one of the actions in the immediately preceding sentence, the Issuer may terminate the ISDA Master Agreement (and the Credit Default Swaps, the Total Return Swap and Class A-1 Swap).

In addition, the ISDA Master Agreement will, subject to satisfaction of certain conditions, terminate on the occurrence of an Auction Call Redemption, a Tax Redemption or an Optional Redemption or on liquidation of the Collateral following an Event of Default under the Indenture (each, a "Redemption Termination Event"). The Issuer will be considered the sole "affected party" (as defined in the ISDA Master Agreement) if the ISDA Master Agreement terminates as a result of a Redemption Termination Event. In the event of a termination of the ISDA Master Agreement pursuant to a Redemption Termination Event, in lieu of the standard unwind methodology set forth by ISDA, the Credit Default Swaps and the termination payment associated with the termination of such Credit Default Swaps will be terminated pursuant to the Liquidation Procedures. In addition, in the event that the ISDA Master Agreement Termination is a result of an "event of default" or a "termination event" (other than due to a "tax event" or "illegality") where MLI is the "defaulting party" or sole "affected party," the amount payable on the termination date related to the Credit Default Swaps will be equal to (A) the Unpaid Amounts owing to the Issuer less (B) the Unpaid Amounts owing to MLI (and no other payments will be payable by either party related to the Credit Default Swaps). If that amount is a negative number, the Issuer will pay the absolute value of that amount to MLI in accordance with the Priority of Payments and if it is a positive number, MLI will pay it to the Issuer. Further, in the event that the ISDA Master Agreement Termination is a result of an "event of default" or a "termination event" where the Issuer is the "defaulting party" or "affected party" or due to a "tax event" or "illegality" where MLI is the "defaulting party" or "affected party," the standard unwind methodology of "Loss" set forth in the ISDA Master Agreement will apply with respect to the Credit Default Swaps and the termination payment related to such termination will be determined in accordance with Loss. In lieu of the standard unwind methodology set forth by ISDA, for all purposes, the Total Return Swap termination payments will be calculated in accordance with the Total Return Swap, which generally does not require MLI or the Issuer



to pay any termination payment unless the Issuer fails to deliver a Reference Security to MLI or any other purchaser. Neither the Issuer nor MLI will make a termination payment (other than Unpaid Amounts) relating to the Class A-1 Swap in the event of an ISDA Master Agreement Termination.

### **Replacement of the ISDA Master Agreement**

In the event that MLI designates an Early Termination Date under the ISDA Master Agreement, the Credit Default Swaps, the Class A-1 Swap and the Total Return Swap will be terminated and the Issuer may be required to pay a termination payment to the Credit Default Swap Counterparty or the Credit Default Swap Counterparty may be required to pay a termination payment to the Issuer. Any such termination of the ISDA Master Agreement will constitute an Event of Default under the Indenture and, if the maturity of the Notes is accelerated, will result in the liquidation of the Collateral if any of the Liquidation Conditions is satisfied. If the Issuer designates an Early Termination Date under the ISDA Master Agreement, the same consequences will ensue as described above, except that such termination by the Issuer will only constitute an Event of Default under the Indenture if a Majority of each Class of Notes consent to such termination constituting an Event of Default.

If an Early Termination Date has been designated by the Issuer or by MLI under the ISDA Master Agreement, at any time prior to the commencement of liquidation of the Collateral the Issuer may enter into a replacement ISDA Master Agreement with a dealer (each such dealer, a "Replacement CDS Counterparty") and replacement Credit Default Swaps (a "CDS Replacement"). A CDS Replacement will not be effective until (i) the Rating Condition is satisfied, and (ii) a Majority of each Class of Notes and a Majority-in-Interest of Holders of Preferred Securities have consented to it. It is very likely that any CDS Replacement would be on significantly different terms than the ISDA Master Agreement and Credit Default Swaps with MLI, including changes in the identity of the Reference Obligations and the amount of the Fixed Rates applicable to the Credit Default Swaps. The CDS Replacement could be implemented either before or after the end of the Reinvestment Period. The CDS Replacement may, but is not required to, include a TRS Replacement.

There can be no assurance that the Issuer could arrange a CDS Replacement if the ISDA Master Agreement is terminated, and any CDS Replacement may be on significantly less favorable terms to the Issuer than the Credit Default Swaps with MLI.

### **Payments Under the Credit Default Swaps**

Payments to MLI in respect of any Credit Default Swaps (including Swap Termination Payments payable by the Issuer payable upon the termination of an individual Credit Default Swap but excluding any termination payments payable upon the termination in full of the ISDA Master Agreement due to an "event of default" or "termination event") will be made from the Payment Account on the date when such payment is due without regard to the Priority of Payments. The Payment Account will be funded for such purpose by the Issuer applying (x) funds, securities and other property standing to the credit of the Accounts and (y) Class A-1 Fundings under the Class A-1 Swap, in each case in accordance with the Account Payment Priority. Payments to MLI in respect of any termination payments payable upon the termination in full of the ISDA Master Agreement shall be made on a Quarterly Distribution Date subject to and in accordance with the Priority of Payments. See "Description of the Notes—Priority of Payments.

So long as the Total Return Swap remains in effect, the Credit Default Swaps will provide for the Issuer to pay Physical Settlement Amounts and Floating Amounts (other than Interest Payment Amounts), and the Credit Default Swap Counterparty to pay Principal Reimbursements to the Issuer, on the next Quarterly Distribution Date following the date on which any such amount otherwise would be payable.

## **The Credit Default Swap Counterparty**

*The information appearing in this section has been prepared by the initial Credit Default Swap Counterparty and has not been independently verified by the Co-Issuers, the Collateral Manager, the Trustee, the Placement Agent or the Initial Purchaser. Accordingly, notwithstanding anything to the contrary herein, none of the Co-Issuers, the Collateral Manager, the Trustee, the Placement Agent or the Initial Purchaser assumes any responsibility for the accuracy, completeness or applicability of such information. The Credit Default Swap Counterparty accepts responsibility only for the information contained in the following three paragraphs.*

The Credit Default Swap Counterparty will be Merrill Lynch International ("MLI"), which is incorporated under the laws of England with its registered address at Merrill Lynch Financial Centre, 2 King Edward Street, London EC1A 1HQ, United Kingdom. MLI is a wholly owned indirect subsidiary of Merrill Lynch & Co., Inc. ("ML&Co."). MLI does not publish financial statements. The payment obligations of MLI under the ISDA Master Agreement under which the Synthetic Securities will be made will be guaranteed by ML&Co.

ML&Co. is incorporated under the laws of the State of Delaware and has its principal executive office at 4 World Financial Center, New York, New York 10281 (212) 449-1000. Its registered office in the State of Delaware is c/o The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801.

ML&Co. files reports, proxy statements and other information with the SEC. The SEC filings are also available over the Internet at the SEC's web site at <http://www.sec.gov>. Investors may also read and copy any document filed at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for more information on the public reference rooms and their copy charges. Investors may also inspect the SEC reports and other information at the New York Stock Exchange, 20 Broad Street, New York, New York 10005. ML&Co. will provide without charge to each person to whom this Offering Circular is delivered, on written request of such person, a copy (without exhibits) of any or all such documents so filed since January 1, 2001. Requests for such copies should be directed to the Corporate Secretary, Merrill Lynch & Co., Inc., 222 Broadway, New York, NY 10038, telephone (212) 670-0432.

## **The Collateral Quality Tests**

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

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

**Ratings Matrix.** On any Measurement Date on or after the Ramp-Up Completion Date, any of the rows of the table below (each a "**Ratings Matrix**"), one of which (as designated from time to time by the Collateral Manager, on behalf of the Issuer) shall be applicable for purposes of determining compliance with the Moody's Asset Correlation Test and the Moody's Maximum Rating Distribution Test as described below. The maximum Moody's Asset Correlation Factor required to satisfy the Moody's Asset Correlation Test (the "**Designated Maximum Moody's Asset Correlation Factor**") and the maximum Moody's Maximum Rating Distribution required to satisfy the Moody's Maximum Rating Distribution Test (the "**Designated Moody's Maximum Rating Distribution**") for each Rating Matrix are set forth opposite such Rating Matrix in the table below.

<b>Ratings Matrix</b>	<b>Designated Maximum Moody's Asset Correlation Factor</b>	<b>Designated Moody's Maximum Rating Distribution</b>
1	22.00%	550
2	22.50%	540
3	23.00%	530
4	23.50%	520
5	24.00%	511
6	24.50%	500
7	25.00%	490
8	25.50%	480
9	26.00%	465

**Moody's Asset Correlation Test.** The "**Moody's Asset Correlation Test**" will be satisfied on the Ramp-Up Completion Date and any Measurement Date thereafter if the Moody's Asset Correlation Factor on such Measurement Date (calculated based on a model that assumes 160 separate obligors) is equal to or less than the Designated Maximum Moody's Asset Correlation Factor for any of Ratings Matrix 1, 2, 3, 4, 5, 6, 7, 8 or 9; *provided* that the applicable Moody's Maximum Rating Distribution on such Measurement Date is equal to or less than the Designated Moody's Maximum Rating Distribution for the same Ratings Matrix; *provided* further that for purposes of the Moody's Asset Correlation Test, RMBS with a weighted average FICO score equal to or greater than 700 shall be classified as "RMBS - Prime", RMBS with a weighted average FICO score greater than or equal to 625 but less than 700 shall be classified as "RMBS - Midprime" and RMBS with a weighted average FICO score less than 625 shall be classified as "RMBS - Subprime". The "**Moody's Asset Correlation Factor**" is a percentage determined in accordance with any of the one or more asset correlation methodologies provided from time to time to the Collateral Manager and the Collateral Administrator by Moody's. For purposes of the Moody's Asset Correlation Test, a Synthetic Security will be included as a Collateral Debt Security having the characteristics of the related Reference Obligation, and a Multiple Obligation Synthetic Security or Index Security will be included as having the characteristics of the related Reference Obligations with the Principal Balance thereof allocated to each Reference Obligation in the same proportion as each such Reference Obligation bears to the aggregate Principal Balance of such Synthetic Security.

**Moody's Maximum Rating Distribution Test.** The "**Moody's Maximum Rating Distribution Test**" will be satisfied on the Ramp-Up Completion Date and any Measurement Date thereafter if the Moody's Maximum Rating Distribution of the Collateral Debt Securities as of such Measurement Date is equal to or less than the Designated Moody's Maximum Rating Distribution for any of Ratings Matrix 1, 2, 3, 4, 5, 6, 7, 8 or 9; *provided* that the applicable Moody's Asset Correlation Factor on such Measurement Date is equal to or less than the Designated Maximum Moody's Asset Correlation Factor for the same Ratings Matrix. The "**Moody's Maximum Rating Distribution**" on any such Measurement Date is the number determined by *dividing* (i) the summation of the series of products obtained for any Pledged Collateral Debt Security that is not a Deferred Interest PIK Bond, Defaulted Security or Written Down Security, by

*multiplying* (1) the Principal Balance as of such Measurement Date of each such Pledged Collateral Debt Security by (2) its respective Moody's Rating Factor as of such Measurement Date *by* (ii) the Aggregate Principal Balance as of such Measurement Date of all Pledged Collateral Debt Securities that are not Deferred Interest PIK Bonds, Defaulted Securities or Written Down Securities and rounding the result up to the nearest whole number.

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

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

For purposes of the Moody's Maximum Rating Distribution Test:

- (a) If a Collateral Debt Security does not have a Moody's Rating at the date of Acquisition thereof, the Moody's Rating Factor with respect to such Collateral Debt Security shall be 10,000 for a period of 90 days from the Acquisition of such Collateral Debt Security. After such 90 day period, if such Collateral Debt Security is not rated by Moody's and no other security or obligation of the issuer thereof or obligor thereon is rated by Moody's and the Issuer or the Collateral Manager seeks to obtain an estimate of a Moody's Rating Factor, then the Moody's Rating Factor of such Collateral Debt Security will be deemed to be such estimate thereof as may be assigned by Moody's upon the request of the Issuer or the Collateral Manager; provided that such estimate will be subject to annual review by Moody's; and
- (b) With respect to any Synthetic Security the Moody's Rating Factor shall be determined as specified by Moody's at the time such Synthetic Security is Acquired by the Issuer, except that in the case of a Form Approved Synthetic Security the Moody's Rating Factor shall be the same as for the Reference Obligation.

Moody's Minimum Weighted Average Recovery Rate Test. The "Moody's Minimum Weighted Average Recovery Rate Test" will be satisfied if, on any Measurement Date on or after the Ramp-Up Completion Date, the Moody's Weighted Average Recovery Rate as of such Measurement Date is greater than or equal to 24.50%.

The "Moody's Weighted Average Recovery Rate" is the number (expressed as a percentage rounded up to the first decimal place) obtained by (a) summing the products obtained by *multiplying* the Principal Balance of each Collateral Debt Security other than a Defaulted Security or Deferred Interest PIK Bond by its "Applicable Recovery Rate" (determined for purposes of this definition pursuant to clause (a) of the definition of "Applicable Recovery Rate") and (b) *dividing* such sum by the Aggregate Principal Balance of all such Collateral Debt Securities, other than Defaulted Securities or Deferred Interest PIK Bonds.

Weighted Average Spread Test. The "Weighted Average Spread Test" will be satisfied if, on any Measurement Date on or after the Ramp-Up Completion Date, the Weighted Average Spread as of such Measurement Date is equal to or greater than 1.67%.

The "Weighted Average Spread" means, as of any Measurement Date, the sum (expressed as a percentage) (rounded up to the next 0.001%) of (A) the amount obtained by *summing* (a)(i) the products obtained by *multiplying* (x) the Current Spread with regard to each Pledged Collateral Debt Security (excluding any Synthetic Security) that is a Floating Rate Security or a Deemed Floating Rate Security (other than a Defaulted Security, a Deferred Interest PIK Bond or a Written Down Amount) as of such date *by* (y) the Principal Balance of such Pledged Collateral Debt Security (excluding any Synthetic Security) as of such date, *plus* (ii) the sum of the products obtained by *multiplying* (x) the Fixed Rate payable by the applicable Synthetic Security Counterparty, as buyer of protection, under each Synthetic Security structured as a credit default swap under which the Issuer is acting as seller of protection (excluding any Hedged Long Credit Default Swap) *plus* (iii) the sum of the products obtained by multiplying (x) the Net Counterparty Hedged Long Fixed Amount (if any) expressed as a percentage payable by the Credit Default Swap Counterparty to the Issuer under each Hedged Long Credit Default Swap *by* (y) the Reference Obligation Notional Amount of such Hedged Long Credit Default Swap *minus* (iv) the sum of the products obtained by multiplying (x) the Net Issuer Hedged Long Fixed Amount (if any) expressed as a percentage payable to the Credit Default Swap Counterparty by the Issuer under each Hedged Long Credit Default Swap *by* (y) the Reference Obligation Notional Amount of such Hedged Long Credit Default Swap *by* (y) the Principal Balance of such Synthetic Security and *dividing* (b) such amount *by* the sum of (i) the Aggregate Principal Balance of all Pledged Collateral Debt Securities that are Floating Rate Securities or Deemed Floating Rate Securities (excluding all Defaulted Securities, Deferred Interest PIK Bonds and Written Down Amounts) *plus* (ii) the aggregate Principal Balance of all Synthetic Securities that are structured as credit default swaps under which the Issuer is acting as seller of protection, but not including Hedged Long Credit Default Swaps *plus* (B) if such amount obtained pursuant to clause (A) is less than the applicable percentage specified in the definition of "Weighted Average Spread Test," the Fixed Rate Excess, if any, as of such Measurement Date. For purposes of this definition, (1) no contingent payment of interest will be included in such calculation and (2) if on such Measurement Date such rate is calculated as a spread below a London interbank offered rate, such spread shall be expressed as a negative number for purposes of making the calculation described in clause (i) of the preceding sentence. When calculating the Weighted Average Spread, a Hybrid Security that is bearing interest at a floating rate shall be considered a Floating Rate Security after the Reset Date.

Weighted Average Coupon Test. The "Weighted Average Coupon Test" means a test that is satisfied if, on any Measurement Date on or after the Ramp-Up Completion Date on which the Issuer holds any Fixed Rate Securities, the Weighted Average Coupon as of such Measurement Date is equal to or greater than 5.5%.

The "Weighted Average Coupon" means, as of any Measurement Date, the sum (rounded up to the next 0.001%) of (a) the number obtained by (i) summing the products obtained by *multiplying* (x) the Current Interest Rate with respect to each Pledged Collateral Debt Security that is a Fixed Rate Security or Deemed Fixed Rate Security (other than a Defaulted Security, Deferred Interest PIK Bond or Written Down Amount) *by* (y) the Principal Balance of each such Pledged Collateral Debt Security and (ii) *dividing* such sum by the Aggregate Principal Balance of all Pledged Collateral Debt Securities that are Fixed Rate Securities or Deemed Fixed Rate Securities (excluding all Defaulted Securities, Deferred Interest PIK Bonds and Written Down Amounts) *plus* (b) if such sum of the numbers obtained pursuant to clause (a) is less than the applicable percentage specified in the definition of "Weighted Average Coupon Test," the Spread Excess, if any, as of such Measurement Date. For purposes of this definition, no contingent payment of interest will be included in such calculation. When calculating the Weighted

Average Coupon, a Hybrid Debt Security that is currently bearing interest at a fixed rate shall be considered a Fixed Rate Security.

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

As of any Measurement Date occurring during the period below:	Weighted Average Life (in years)
Ramp-Up Completion Date to and including the Quarterly Distribution Date in January 2007	6
Thereafter to and including the Quarterly Distribution Date in January 2008	5
Thereafter to and including the Quarterly Distribution Date in January 2009	4
Thereafter to and including the Quarterly Distribution Date in January 2010	3
Thereafter	3

On any Measurement Date with respect to any Pledged Collateral Debt Securities, the "Weighted Average Life" is the number obtained by (i) summing the products obtained by *multiplying* (a) the Average Life at such time of each such Pledged Collateral Debt Security by (b) the outstanding principal balance of such Pledged Collateral Debt Security and (ii) *dividing* such sum by the Aggregate Principal Balance at such time of all such Pledged Collateral Debt Securities.

On any Measurement Date with respect to any Pledged Collateral Debt Security, the "Average Life" is the quotient obtained by *dividing* (i) the sum of the products of (a) the number of years (rounded to the nearest one tenth thereof) from such Measurement Date to the respective dates of each successive scheduled distribution of principal of such Pledged Collateral Debt Security and (b) the respective amounts of principal of such scheduled distributions by (ii) the sum of all successive scheduled distributions of principal on such Pledged Collateral Debt Security (as determined by the Collateral Manager).

Standard & Poor's Minimum Recovery Rate Test. The "Standard & Poor's Minimum Recovery Rate Test" will be satisfied if, on any Measurement Date on or after the Ramp-Up Completion Date, the Standard & Poor's Recovery Rate for each specified Class of Notes as of such Measurement Date is equal to, or greater than, (a) with respect to the Class A-1 Notes, 30%; (b) with respect to the Class A-2A Notes, 30%; (c) with respect to the Class A-2B Notes, 30%; (d) with respect to the Class B Notes, 34%; (e) with respect to the Class C Notes, 34%; (f) with respect to the Class D Notes, 40%; (g) with respect to the Class E Notes, 40%; (h) with respect to the Class F Notes, 46%; (i) with respect to the Class G Notes, 46%; and (j) with respect to the Class A Preferred Securities, 46%.

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

determining the Standard & Poor's Recovery Rate, the Principal Balance of a Deferred Interest PIK Bond or a Defaulted Security will be deemed to be equal to its Calculation Amount.

### **Standard & Poor's CDO Monitor Test**

If on any date on or after the Ramp-Up Completion Date, upon the Acquisition of any Collateral Debt Security (after giving effect to the Acquisition of such Collateral Debt Security), the Standard & Poor's CDO Monitor Test is not satisfied or, if immediately prior to such investment the Standard & Poor's CDO Monitor Test was not satisfied, the result is not closer to compliance, the Issuer must promptly deliver to the Trustee, the Noteholders, the Credit Default Swap Counterparty, the Hedge Counterparty and Standard & Poor's an officer's certificate specifying the extent of non-compliance.

The "Standard & Poor's CDO Monitor Test" is a test satisfied on any Measurement Date on or after the Ramp-Up Completion Date if after giving effect to the Disposition of a Collateral Debt Security or the Acquisition of a Collateral Debt Security (or both), as the case may be, on such Measurement Date each Class Loss Differential of the Proposed Portfolio is positive or if any Class Loss Differential of the Proposed Portfolio is negative prior to giving effect to such sale or purchase, the extent of compliance is improved after giving effect to the Acquisition or Disposition of a Collateral Debt Security.

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

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

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

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

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

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

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

by Standard & Poor's from time to time. For purposes of the Standard & Poor's CDO Monitor Test, unless otherwise specified, (i) a Single Obligation Synthetic Security will be included as a Collateral Debt Security having the characteristics of the related Reference Obligation (and the issuer thereof will be deemed to be the related Reference Obligor and not the Synthetic Security Counterparty) and (ii) a Multiple Obligation Synthetic Security or an Index Synthetic Security will be included as a Collateral Debt Security having the characteristics of the Synthetic Security.

The Standard & Poor's CDO Monitor calculates the cumulative default rate of a pool of Collateral Debt Securities consistent with a specified benchmark rating level based upon Standard & Poor's proprietary corporate debt default studies. In calculating the Class Scenario Default Rate, the Standard & Poor's CDO Monitor considers each obligor's most senior unsecured debt rating, the number of obligors in the portfolio, the obligor and industry concentration in the portfolio and the remaining weighted average maturity of the Collateral Debt Securities and calculates a cumulative default rate based on the statistical probability of distributions of defaults on the Collateral Debt Securities.

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

### **Dispositions of Collateral Debt Securities**

The Collateral Debt Securities may be retired prior to their respective final maturities due to, among other things, the existence and frequency of exercise of any optional or mandatory redemption features of such Collateral Debt Securities. In addition, pursuant to the Indenture, the Issuer may Dispose of Collateral Debt Securities (including termination, assignment or hedging of Synthetic Securities) in the following circumstances:

(i) The Issuer may, at the direction of the Collateral Manager, Dispose of (or, in the case of any Synthetic Security, exercise its right, if any, to terminate, hedge or assign) any Deferred Interest PIK Bond, Defaulted Security, Written Down Security, Credit Risk Security, Credit Improved Security or Equity Security at any time; *provided* that during the Reinvestment Period, the Collateral Manager may Acquire, by no later than the Determination Date for the second Quarterly Distribution Date succeeding the end of the Due Period in which the Disposition of any Credit Risk Security occurred, substitute Collateral Debt Securities in compliance with the Eligibility Criteria (other than the requirement of the Eligibility Criteria relating to the Standard & Poor's CDO Monitor Test) with a Principal Balance at least equal to the Disposition Proceeds (exclusive of accrued interest); and *provided further* that (a) during the Reinvestment Period, a Credit Improved Security may be Disposed of only if, in the Collateral Manager's judgment (exercised in accordance with the standard of care set forth in the Collateral Management Agreement), (I) the resulting Disposition Proceeds or CDS Principal Proceeds may be reinvested by Acquiring additional Collateral Debt Securities by no later than the Determination Date for the second Quarterly Distribution Date succeeding the end of the Due Period in which the Disposition of such Credit Improved Security occurred in one or more substitute Collateral Debt Securities which, if the Class A Sequential Pay Ratio is lower than it was on the Ramp-Up Completion Date, have an Aggregate Principal Balance at least equal to the Principal Balance of the Credit Improved Security being Disposed (without, in the case of a Credit Default Swap, causing or increasing a Notional Amount Shortfall), (II) any such



Disposition Proceeds or CDS Principal Proceeds (exclusive of the accrued interest or accrued Fixed Amount component of Disposition Proceeds) not reinvested in one or more additional Collateral Debt Securities by the Determination Date for the second Quarterly Distribution Date succeeding the end of the Due Period in which they were received shall be treated as Specified Principal Proceeds or Specified CDS Principal Proceeds, and (III) such Acquisition shall be made in compliance with the Eligibility Criteria and any other criteria specified in the Indenture, (b) after the Reinvestment Period a Credit Improved Security may be Disposed of (but the Disposition Proceeds or CDS Principal Proceeds may not be reinvested) only if the Collateral Manager certifies to the Trustee in writing that (x) the Collateral Manager has determined that such security constitutes a Credit Improved Security and (y) on the date of such Disposition, in the Collateral Manager's judgment (exercised in accordance with the standard of care set forth in the Collateral Management Agreement), the Disposition Proceeds or CDS Principal Proceeds (net of any accrued interest included therein) from such Disposition will be equal to or greater than the Principal Balance of the Credit Improved Security being sold; and (c) in connection with the reinvestment of the proceeds of a Disposition of a Credit Improved Security during the Reinvestment Period, any determination of whether the extent of non-compliance with any of the Eligibility Criteria may not be made worse by such reinvestment shall be made by comparing the Collateral Debt Securities held by the Issuer immediately prior to the Disposition of such Credit Improved Security to the Collateral Debt Securities held by the Issuer immediately after such reinvestment. A Disposition of a Credit Improved Security or Credit Risk Security may occur only if the Collateral Manager determines, taking into account any factors it deems relevant, that such Dispositions and any related purchases or substitutions will, in the judgment of the Collateral Manager (exercised in accordance with the standard of care set forth in the Collateral Management Agreement), benefit the Issuer in one or more of the following manners: an improvement in one or more of the Collateral Quality Tests or (solely for a Credit Improved Security) the Standard & Poor's CDO Monitor Test, an improvement in the credit quality of the portfolio, a narrowing of interest rate mismatches or any other improvement which, in the judgment of the Collateral Manager (exercised in accordance with the standard of care set forth in the Collateral Management Agreement), would result in a benefit to the Issuer;

(ii) The Issuer, at the direction of the Collateral Manager, shall Dispose of (a) any Defaulted Security (or, in the case of any Synthetic Security that becomes a Defaulted Security, exercise its right, if any, to terminate, hedge or assign such Synthetic Security) within three years after such Collateral Debt Security became a Defaulted Security (or by such later date as such Defaulted Security may first be sold in accordance with its terms and applicable law) and (b) any Equity Security or other security or consideration received by the Issuer in exchange for a Defaulted Security (or any Synthetic Security that becomes a Defaulted Security) that is not Margin Stock and is not a security which may not be Acquired under item (7), (8) or (9) of the Eligibility Criteria within one year after the Issuer's receipt thereof (or within one year after such later date as such Equity Security may first be sold in accordance with its terms and applicable law); *provided* that any Defaulted Security not sold within three years after such Collateral Debt Security becomes a Defaulted Security shall be deemed to have a Principal Balance of zero;

(iii) The Issuer, at the direction of the Collateral Manager, shall sell Margin Stock within five Business Days and shall sell each Equity Security or other security or consideration received by the Issuer (other than an Equity Security or other security or consideration described in clause (ii) above) in exchange for a Defaulted Security which may not be Acquired under item (7), (8) or (9) of the Eligibility Criteria (or any Synthetic Security that becomes a Defaulted Security) not later than five Business Days after the Issuer's receipt thereof (or within five Business Days after such later date as such Equity Security may first be sold in accordance with its terms and applicable law); *provided, however*, that if the Collateral Manager on behalf of the

Issuer cannot despite its best efforts, sell any such security, it shall transfer it to a subsidiary of the Issuer formed for this purpose and continue to use its best efforts to sell the security;

(iv) The Issuer shall, in the event of an Auction Call Redemption, Optional Redemption, Tax Redemption or at the Stated Maturity, direct the Trustee to sell (or terminate or assign, in the case of a Synthetic Security), at the direction of the Collateral Manager, Collateral Debt Securities without regard to the foregoing limitations; and

(v) The Issuer may Dispose of (or, in the case of a Synthetic Security, exercise its right, if any, to terminate, hedge or assign such Synthetic Security) any Collateral Debt Security that is not a Credit Improved Security, Defaulted Security, Deferred Interest PIK Bond, Equity Security, Credit Risk Security or Written Down Security at any time after the Closing Date and prior to the end of the Reinvestment Period (any such Disposition, termination or assignment, a "Discretionary Disposition"); *provided* that (I) any Disposition Proceeds or CDS Principal Proceeds therefrom (exclusive of the accrued interest or accrued Fixed Amount component of Disposition Proceeds) will be treated as Specified Principal Proceeds or Specified CDS Principal Proceeds unless they are reinvested by Acquiring additional Collateral Debt Securities, by the Determination Date for the second Quarterly Distribution Date succeeding the end of the Due Period in which the Disposition occurred, in one or more substitute Collateral Debt Securities having an Aggregate Principal Balance (together with the remaining such Disposition Proceeds or CDS Principal Proceeds from such Disposition not so reinvested), and exclusive of the accrued interest component of the Disposition Proceeds) at least equal to the 100% of the Principal Balance of the Collateral Debt Security being Disposed (and, in the case of a Credit Default Swap, plus any termination payment received by the Issuer from the Credit Default Swap Counterparty, but less any Swap Termination Payments paid by the Issuer in connection with the termination of such Credit Default Swap), (II) a Discretionary Disposition may occur only if: (a) the Aggregate Principal Balance of all Collateral Debt Securities Disposed of in Discretionary Dispositions pursuant to this clause (v) during any Annual Period does not exceed 20% of the Net Outstanding Portfolio Collateral Balance as of the first Determination Date preceding such Annual Period (or as of the Closing Date, in the case of the first Annual Period) and (b) the Collateral Manager determines, taking into account any factors it deems relevant, that such Dispositions and any related purchases or substitutions will, in the judgment of the Collateral Manager (exercised in accordance with the standard of care set forth in the Collateral Management Agreement), benefit the Issuer in one or more of the following manners: an improvement in one or more of the Collateral Quality Tests or the Standard & Poor's CDO Monitor Test, an improvement in the credit quality of the portfolio, a narrowing of interest rate mismatches or any other improvement which, in the judgment of the Collateral Manager (exercised in accordance with the standard of care set forth in the Collateral Management Agreement), would result in a benefit to the Issuer; and (III) in connection with any reinvestment of the proceeds of such Discretionary Disposition, any determination of whether the extent of non-compliance with any of the Eligibility Criteria may not be made worse by such reinvestment shall be made by comparing the Collateral Debt Securities held by the Issuer immediately prior to the Disposition of such Collateral Debt Security to the Collateral Debt Securities held by the Issuer immediately after such reinvestment.

The Collateral Manager may determine that a Synthetic Security is a Credit Risk Security or a Credit Improved Security based on either a change in the credit quality or rating of the Synthetic Security Counterparty or based on the credit quality, value, rating or credit spread of the Reference Obligation or the value or credit spread of the Synthetic Security.

The Issuer may not Dispose of a Credit Default Swap by entering into a Hedging Short Credit Default Swap unless the Issuer satisfies the Hedging Short Credit Default Swap Premium Test (or, if the Issuer was not in compliance with such test prior to entering into such Disposition, the extent of the Issuer's noncompliance with the Hedging Short Credit Default Swap Premium Test is not made worse after giving effect to such Disposition).

Disposition Proceeds consisting of accrued interest may be applied, in the Collateral Manager's discretion, to purchase Interest Only Securities or to purchase accrued interest on substitute Collateral Debt Securities in accordance with the Eligibility Criteria on or prior to the end of the Due Period in which such funds were received if the Collateral Manager certifies to the Trustee that, after taking into account such application of Interest Proceeds, the Interest Proceeds will be sufficient to pay, on the Quarterly Distribution Date following the Due Period during which such purchase is made, all accrued interest owed by the Issuer on the Notes and any other amounts required to be paid pursuant to clauses (1) through (16) of the Interest Proceeds Waterfall.

Any Disposition by the Issuer will be conducted on an "arm's-length basis" or, if made to or from the Collateral Manager, its affiliates or their respective clients the Issuer (i) will have received from the Collateral Manager such information relating to such acquisition as it may reasonably require and (ii) will have approved such acquisition (for which purpose the Collateral Manager shall not have authority to act on behalf of the Issuer) and such Disposition must otherwise be consistent with applicable law and the Collateral Management Agreement.

Any Defaulted Security not sold within three years after such Collateral Debt Security becomes a Defaulted Security will be deemed to have a Principal Balance of zero.

The Issuer, at the direction of the Collateral Manager, may apply Interest Proceeds in the Interest Collection Account to pay a Swap Termination Payment (other than any Defaulted Synthetic Termination Payment) to a Synthetic Security Counterparty in connection with the Disposition of a Synthetic Security if the Collateral Manager certifies to the Trustee that, after taking into account such application of Interest Proceeds, the remaining Interest Proceeds in the Interest Collection Account will be sufficient to pay, on the Quarterly Distribution Date (and on any Quarterly Distribution Date prior thereto) following the Due Period during which such termination payment is made, all accrued interest owed by the Issuer on the Notes and any other amounts required to be paid pursuant to clauses (1) through (16) of the Interest Proceeds Waterfall.

In the event of an Optional Redemption, Auction Call Redemption or a Tax Redemption, the Collateral Manager may direct the Trustee to Dispose of Collateral Debt Securities without regard to the limitations described above that are applicable to sales by the Issuer; *provided* that (i) the proceeds therefrom will be at least sufficient to pay certain expenses and other amounts and redeem in whole but not in part all Notes to be redeemed simultaneously; (ii) such proceeds are used to make such a redemption; and (iii) in the case of an Optional Redemption or Tax Redemption, the Issuer provides a certification as to the Disposition Proceeds of the Collateral containing calculations which are confirmed in writing by independent accountants as set forth in the Indenture. See "Description of the Notes—Optional Redemption and Tax Redemption," "—Redemption Procedures" and "—Auction Call Redemption."

### **The Hedge Agreements**

On the Closing Date, the Issuer will enter into an ISDA Master Agreement pursuant to which the Issuer will enter into the Proceeds Swap. After the Closing Date, at the direction of the Collateral Manager, the Issuer may enter into interest rate protection agreements consisting of fixed rate for floating

rate interest swaps, floating/floating interest rate swaps, timing swaps, basis swaps, interest rate caps or other forms of interest rate derivatives, with hedge counterparties (such parties together with the Initial Hedge Counterparty, the "Hedge Counterparties") in accordance with the Indenture. On and after the Closing Date, at the direction of the Collateral Manager, the Issuer may enter into Deemed Fixed Rate Hedge Agreements and Deemed Floating Rate Hedge Agreements, in order to hedge the interest rate risks on the Pledged Collateral Debt Securities. Each interest rate protection agreement, any Deemed Fixed Rate Hedge Agreement or any Deemed Floating Rate Hedge Agreement, together with any replacement therefor, together with the Proceeds Swap, is referred to herein as a "Hedge Agreement."

On the Closing Date, the Issuer will enter into a swap agreement (the "Proceeds Swap") providing for the payment of U.S.\$6,000,000 by the Initial Hedge Counterparty to the Issuer on the Closing Date (the "Up Front Payment") and Issuer will be obligated to pay the Initial Hedge Counterparty a floating amount equal to the Proceeds Swap Installment. The initial Hedge Counterparty (the "Initial Hedge Counterparty") will be MLCS, located at 4 World Financial Center, 18th Floor, New York, New York 10080. The Proceeds Swap will not hedge any of the interest rate risks to which the Issuer is exposed.

The Issuer may not enter into additional or replacement Hedge Agreements after the Closing Date without satisfaction of the Rating Condition (unless such Hedge Agreement is in the form of a Form-Approved Hedge Agreement) and may not terminate, reduce or increase the notional amount of a Hedge Agreement without satisfying the Rating Condition.

A Hedge Agreement in the form of a fixed/floating interest rate swap (a "Fixed/Floating Hedge Agreement") is intended to protect, in part, against increases in LIBOR payable on the Notes and to mitigate in part (to the extent practicable) the Issuer's exposure to such interest rate risk. Pursuant to a fixed/floating interest rate swap, the Issuer will be obligated to make a fixed rate payment to the Hedge Counterparty and the Hedge Counterparty will be obligated to make a floating rate payment to the Issuer equal to the one-month or three-month London interbank offered rate (as defined in the Hedge Agreement), in each case based on the notional amount specified in the Hedge Agreement. If the Issuer enters into the floating/floating interest rate (or timing) swaps with a Hedge Counterparty, the purpose of such swaps will be to mitigate in part the basis risk to the Issuer resulting from timing mismatches between the Floating Rate Securities paying interest based on London interbank offered rates set at different times throughout an interest accrual period and the Notes which pay interest based on LIBOR set on LIBOR Determination Dates.

The Notes will bear interest at three-month LIBOR (which resets quarterly) whereas a high percentage of the Cash Collateral Debt Securities are expected to bear interest based on the one-month London interbank offered rate (which resets monthly and is payable monthly); to mitigate in part the risk to the Issuer from this interest rate mismatch, the Issuer expects to enter into one or more basis swaps after the Closing Date (the "Initial Hedge Agreement") with the Initial Hedge Counterparty, under which the Issuer will pay interest on a notional amount at the one-month London interbank offered rate plus a spread, resetting monthly, and the Hedge Counterparty will pay interest at the three-month London interbank offered rate on the same notional amount, resetting on LIBOR Determination Dates.

Only a single net payment will be made on each date on which payments are due under the Hedge Agreement. If the payment owed by the Hedge Counterparty to the Issuer pursuant to any fixed/floating interest rate swap or any floating/floating interest rate swap is greater than the payment owed by the Issuer pursuant to such swap(s) and the Proceeds Swap, then the Hedge Counterparty will pay the difference to the Issuer. If the payment owed by the Issuer to the Hedge Counterparty pursuant to any fixed/floating interest rate swap, any floating/floating interest rate swap and the Proceeds Swap exceeds the payment owed by the Hedge Counterparty pursuant to such swap(s), then the Issuer will pay the difference to the Hedge Counterparty. See "Risk Factors—Interest Rate Risk."

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

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

- (i) if a Collateralization Event occurs, the Issuer may terminate (which event shall be a "termination event" where the Hedge Counterparty will be the "affected party") such Hedge Agreement unless the Hedge Counterparty, solely at the expense of the Hedge Counterparty, has (A) entered into an agreement in the form of an ISDA Credit Support Annex and provided sufficient collateral as required under the Hedge Agreement, (B) assigned its rights and obligations in and under the Hedge Agreement to another Hedge Counterparty satisfying the Hedge Counterparty Ratings Requirement, (C) obtained a guarantor (pursuant to a guaranty in a form satisfactory to Standard & Poor's if a Collateralization Event occurs with respect to the Hedge Counterparty Ratings Requirement required by Standard & Poor's) with ratings at least equal to the Hedge Counterparty Ratings Requirement for the obligations of the Hedge Counterparty under the Hedge Agreement or (D) taken such other steps as each Rating Agency that has downgraded the Hedge Rating Determining Party in respect of the Hedge Counterparty may require to cause the obligations of the Hedge Counterparty under the Hedge Agreement to be treated by such Rating Agency as if such obligations were owed by a counterparty satisfying the Hedge Counterparty Ratings Requirement; and
- (ii) following the occurrence of a Ratings Event, the Issuer may terminate (which event shall be a "termination event" where the Hedge Counterparty will be the "affected party") the related Hedge Agreement unless the Hedge Counterparty shall, solely at the expense of the Hedge Counterparty, either (i) assign its rights and obligations in and under the Hedge Agreement to another Hedge Counterparty that has ratings at least equal to the Hedge Counterparty Ratings Requirement in accordance with the terms of the Hedge Agreement or (ii) if the Hedge Counterparty is unable to assign its rights and obligations, (1) with the consent of the Issuer, takes the actions in accordance with the preceding paragraph while such Hedge Counterparty continues to use its best efforts to effectuate such assignment (and taken such other action required under the Hedge Agreement), or (2) enters into any other agreement with or arrangement for the benefit of the Issuer and the Trustee that is reasonably satisfactory to the Collateral Manager on behalf of the Issuer, that satisfies the Rating Condition with respect to Standard & Poor's and with respect to which written notice has been provided to Moody's.

The requirements relating to a Collateralization Event or a Ratings Event will not apply to the Proceeds Swap.

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

The Collateral Manager may direct the Issuer to request the Hedge Counterparty to agree to a reduction or an increase in the notional amount of any Hedge Agreement; *provided* that (except as described below with respect to Deemed Fixed/Floating Rate Hedge Agreements) a reduction or increase

in the notional amount of any Hedge Agreement by 10% or more shall be subject to satisfaction of the Rating Condition.

The Hedge Agreements are also expected to be subject to termination by the Hedge Counterparty if an "event of default" or "termination event" occurs with respect to the Issuer under the Master Agreement or upon the earlier to occur of (a) an Event of Default followed by the liquidation of the Collateral in accordance with the Indenture and (b) any Auction Call Redemption, Optional Redemption or Tax Redemption. In the event that amounts are applied to the redemption of Notes on any Quarterly Distribution Date in accordance with the Priority of Payments by reason of a Rating Confirmation Failure, then, subject to the satisfaction of the Rating Condition, a Hedge Agreement (other than any basis swap or Deemed Fixed/Floating Rate Hedge Agreement) may be subject to partial termination by the Hedge Counterparty on such Quarterly Distribution Date with respect to a portion of the notional amount thereof.

Upon any termination of a Hedge Agreement or reduction of the notional amount of a Hedge Agreement, a termination payment with respect to the notional amount terminated or reduced may become payable by a Hedge Counterparty or by the Issuer to the other party under the related Hedge Agreement. Amounts payable upon any termination or reduction of a Hedge Agreement are expected to be based upon standard replacement transaction valuation methodology set forth in the 1992 ISDA Master Agreement published by the International Swaps and Derivatives Association, Inc. (the "Master Agreement").

If any amount is payable by the Issuer to the Hedge Counterparty in connection with the occurrence of any such termination or notional amount reduction of a Hedge Agreement, such amount, together with interest on such amount for the period from and including the date of termination to but excluding the date of payment at a rate *per annum* equal to the interest rate specified in the Hedge Agreement, shall be payable on the next succeeding Quarterly Distribution Date to the extent funds are available for such purpose in accordance with the Priority of Payments, and any amount not so paid on such Quarterly Distribution Date shall be payable on the first Quarterly Distribution Date on which such amount may be paid in accordance with the Priority of Payments. Notwithstanding the foregoing, if a Hedge Agreement becomes subject to early termination due to the occurrence of a Subordinated Termination Event (if such provision is applicable in such Hedge Agreement), the Issuer will agree in each Hedge Agreement not to exercise its right to terminate the Hedge Agreement unless no amount would be owed by the Issuer to the Hedge Counterparty as a result of such termination or the replacement Hedge Counterparty selected in accordance with the Hedge Agreement pays such termination payment.

If at any time a Hedge Agreement becomes subject to early termination due to the occurrence of an "event of default" or a "termination event" as to which the Hedge Counterparty party thereto is the sole "defaulting party" or the sole "affected party" (as each such term is defined in the relevant Hedge Agreement), the Issuer and the Trustee shall take such actions (following the expiration of any applicable grace period) to enforce the rights of the Issuer and the Trustee thereunder as may be permitted by the terms of such Hedge Agreement and consistent with the terms hereof, and shall apply the proceeds of any such actions (including the proceeds of the liquidation of any collateral pledged by such Hedge Counterparty) to enter into a replacement Hedge Agreement on substantially identical terms or on such other terms satisfying the Rating Condition with respect to Standard & Poor's, and with a Hedge Counterparty with respect to which the Rating Condition with respect to Standard & Poor's shall have been satisfied. In addition, the Issuer will use its best efforts to cause the termination of a Hedge Agreement to become effective simultaneously with the entry into a replacement Hedge Agreement described as aforesaid.

The Trustee shall deposit all collateral received from each Hedge Counterparty under a Hedge Agreement in one or more securities accounts in the name of the Trustee that will be designated the "Hedge Counterparty Collateral Account," which will be maintained for the benefit of the Issuer and the related Hedge Counterparty.

The obligations of the Issuer under the Hedge Agreements are limited recourse obligations payable solely from the Collateral pursuant to the Priority of Payments, and will be secured under the Indenture and will be senior in priority to the Issuer's obligations to pay interest on, and principal of, the Notes.

### **The Initial Hedge Counterparty**

*The information appearing in this section has been prepared by the Initial Hedge Counterparty and has not been independently verified by the Co-Issuers, the Collateral Manager, the Trustee, the Initial Purchaser or the Placement Agent. Accordingly, notwithstanding anything to the contrary herein, none of the Co-Issuers, the Collateral Manager, the Trustee, the Initial Purchaser or the Placement Agent assumes any responsibility for the accuracy, completeness or applicability of such information. The Initial Hedge Counterparty accepts responsibility for the accuracy of the information contained in the following paragraph.*

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

### **The Accounts**

On or prior to the Closing Date the Trustee will have established each of the following segregated, non-interest bearing trust accounts and the Hedge Counterparty Collateral Account (the "Accounts"). Any investments of funds in the Accounts will be made in accordance with the direction of the Collateral Manager on behalf of the Issuer.

#### Collection Accounts

All distributions on the Collateral Debt Securities and any proceeds received from the Disposition of any such Collateral Debt Securities, to the extent such distributions or proceeds constitute Interest Proceeds (other than the portion of any interest payments on a semi-annual interest paying security received in cash by the Issuer in any Due Period which will be deposited in the Semi-Annual Interest Reserve Account and the portion of any Quarterly Interest Distributions which will be deposited into the Quarterly Interest Reserve Account), and any amounts paid to the Issuer by a Hedge Counterparty under any Hedge Agreement (other than amounts received by the Issuer by reason of an event of default or termination event under a Hedge Agreement or other comparable event that are required to be used for the purchase by the Issuer of a replacement Hedge Agreement) will be remitted to a single, segregated account established and maintained under the Indenture by the Trustee (the "Interest Collection Account"), which may be a subaccount of the Custodial Account. All distributions on the Collateral Debt Securities and any proceeds received from the Disposition of any such Collateral Debt Securities to the extent such distributions or proceeds constitute Principal Proceeds will be remitted to the Principal Collection Account (the "Principal Collection Account" and, together with the Interest Collection Account, the "Collection Accounts"). The Collection Accounts shall be maintained for the benefit of the Secured Parties and amounts on deposit therein will be available, together with investment earnings thereon, (i) for application in the order of priority set forth under "Description of the Notes—Priority of

Payments," (ii) to pay Floating Amounts and Physical Settlement Amounts payable by the Issuer in accordance with the Account Payment Priority, (iii) to fund Swap Termination Payments payable by the Issuer in accordance with the Account Payment Priority and (iv) to pay to the extent required as such amounts become due and payable, Net Issuer Hedged Long Premiums payable by the Issuer under Hedged Long Credit Default Swaps in accordance with the Account Payment Priority.

During the Reinvestment Period, any amounts in the Principal Collection Account that are not Specified Principal Proceeds, at the direction of the Collateral Manager, will be reinvested in substitute Collateral Debt Securities or transferred to the CDS Reserve Account. However, on any Quarterly Distribution Date on which a Notional Amount Shortfall in excess of zero exists, an amount equal to the lesser of the funds in the Principal Collection Account and the Notional Amount Shortfall shall be transferred to the CDS Reserve Account.

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

#### Payment Account

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

#### Semi-Annual Interest Reserve Account

The Trustee will from time to time deposit Semi-Annual Interest Distributions received in Cash by the Issuer in any Due Period into a single, segregated account established and maintained by the Trustee under the Indenture (the "Semi-Annual Interest Reserve Account"). At least one Business Day prior to each Quarterly Distribution Date, the Trustee shall transfer the aggregate Semi-Annual Interest Release Amounts for all Collateral Debt Securities for such Quarterly Distribution Date (including any interest accrued on any such amount) to the Payment Account for application as Interest Proceeds in accordance with the Priority of Payments and such transfer will be the only permitted withdrawal (other than on the maturity date of the Notes) from, or application of funds on deposit in, or otherwise standing to the credit of, the Semi-Annual Interest Reserve Account. On any Quarterly Distribution Date on which the Issuer would otherwise have insufficient Interest Proceeds to pay the Interest Distribution Amount on all of the Notes in accordance with the Priority of Payments, the Trustee will transfer from the Semi-Annual Interest Reserve Account to the Payment Account, for application as Interest Proceeds on such Quarterly Distribution Date, an amount up to an amount sufficient (together with other Interest Proceeds available for such purpose) to pay the Interest Distribution Amount on all of the Notes in accordance with the Priority of Payments from Interest Proceeds.



### Uninvested Proceeds Account

On the Closing Date the Trustee will deposit Uninvested Proceeds into a single, segregated account established and maintained by the Trustee under the Indenture (the "Uninvested Proceeds Account"). Interest and other income from such investments shall be deposited in the Uninvested Proceeds Account, any gain realized from such investments shall be credited to the Uninvested Proceeds Account, and any loss resulting from such investments shall be charged to the Uninvested Proceeds Account. All investment earnings on Eligible Investments in the Uninvested Proceeds Account will be transferred to the Interest Collection Account and treated as Interest Proceeds. If the first Quarterly Distribution Date occurs prior to Rating Confirmation or Rating Confirmation Failure, an amount equal to the Interest Excess on the related Determination Date will be withdrawn from the Uninvested Proceeds Account and transferred to the Payment Account for application as Interest Proceeds in accordance with the Priority of Payments.

Except as provided in a Proposed Plan, at least one Business Day prior to the first Quarterly Distribution Date following the occurrence of either a Rating Confirmation Failure or a Rating Confirmation after the Ramp-Up Completion Date (which will be the first Quarterly Distribution Date after the Closing Date if the Ramp-Up Completion Date is the same date as the Closing Date), the Trustee will transfer all remaining Uninvested Proceeds that are not required to complete purchases of Collateral Debt Securities to the Payment Account, to be treated *first*, as Interest Proceeds, if there has been a Rating Confirmation, in an amount equal to the Interest Excess if there has been a Rating Confirmation (or if the Closing Date is the Ramp-Up Completion Date) and, *second*, as Principal Proceeds, and distributed in accordance with the Priority of Payments; *provided* that such Uninvested Proceeds will be applied first to the payment of principal of the Notes in direct order of seniority if a Rating Confirmation Failure occurs. During the Ramp-Up Period, the Collateral Manager on behalf of the Issuer may by notice to the Trustee direct the Trustee to, and upon receipt of the Issuer order, the Trustee shall (i) apply cash in the Uninvested Proceeds Account to Acquire Collateral Debt Securities, (ii) withdraw cash in the Uninvested Proceeds Account and deposit it into a Synthetic Security Counterparty Account in connection with the Acquisition of a Defeased Synthetic Security or (iii) withdraw cash in the Uninvested Proceeds Account and deposit it in the CDS Reserve Account. Amounts on deposit in the Uninvested Proceeds Account will be available, together with investment earnings thereon, (i) for application in the order of priority set forth under "Description of the Notes—Priority of Payments," (ii) to pay Floating Amounts and Physical Settlement Amounts payable by the Issuer in accordance with the Account Payment Priority, (iii) to fund Swap Termination Payments payable by the Issuer in accordance with the Account Payment Priority and (iv) to pay to the extent required as such amounts become due and payable, Net Issuer Hedged Long Premiums payable by the Issuer under Hedged Long Credit Default Swaps in accordance with the Account Withdrawal Payment Priority.

### Expense Account

After payment of the organizational and structuring fees, the fee to the Collateral Manager and expenses of the Co-Issuers (including, without limitation, the legal fees and expenses of counsel to the Co-Issuers, the Collateral Manager, the Placement Agent and the Initial Purchaser) and the expenses of offering the Securities, on the Closing Date, at least U.S.\$150,000 from the proceeds of the offering of the Securities will be deposited by the Trustee into a single, segregated account established and maintained by the Trustee under the Indenture (the "Expense Account"). Amounts in the Expense Account will be replenished (i) with Interest Proceeds on each Quarterly Distribution Date in accordance with the Priority of Payments and (ii) with Principal Proceeds on any Quarterly Distribution Date in an amount not to exceed the amount from the Expense Account that previously was designated by the Collateral Manager as Principal Proceeds. Amounts on deposit in the Expense Account may be withdrawn from time to time to pay accrued and unpaid Administrative Expenses of the Co-Issuers. All funds on deposit in the

Expense Account will be invested in Eligible Investments. All amounts remaining on deposit in the Expense Account at the time when substantially all of the Issuer's assets have been sold or otherwise disposed of will be deposited by the Trustee into the Payment Account for application as Interest Proceeds on the immediately succeeding Quarterly Distribution Date.

Any amounts on deposit in the Expense Account in excess of U.S.\$150,000 may, at the option of the Collateral Manager by written notice to the Trustee, be designated as Interest Proceeds or Principal Proceeds and applied in accordance with the Priority of Payments on the next subsequent Quarterly Distribution Date.

#### Custodial Account

The Trustee will, prior to the Closing Date, cause the Custodian to establish a Securities Account which shall be designated as the "Custodial Account," which shall be held in the name of the Trustee as Entitlement Holder in trust for the benefit of the Secured Parties and into which the Trustee shall from time to time deposit Pledged Securities. All Pledged Securities from time to time deposited in, or otherwise standing to the credit of, the Custodial Account pursuant to the Indenture will be held by the Trustee as part of the Collateral. The Co-Issuers shall not have any legal, equitable or beneficial interest in the Custodial Account other than in accordance with the Priority of Payments.

#### Reserve Account

On the Closing Date, U.S.\$1,000,000 will be deposited by the Trustee from the proceeds of the sale of the Securities into a single, segregated account established and maintained by the Trustee under the Indenture (the "Reserve Account"). All funds on deposit in the Reserve Account will be invested in Eligible Investments. On each Quarterly Distribution Date, an amount in the Reserve Account shall be transferred by the Trustee to the Payment Account for application as Interest Proceeds on such Quarterly Distribution Date to make distributions equal to the lesser of (i) the amount on deposit in the Reserve Account and (ii) the amount required (together with all other Interest Proceeds) to make distributions on such Quarterly Distribution Date to the Holders of Preferred Securities equal to 6% *per annum* on the Aggregate Notional Amount of the Preferred Securities (based on a year of 360 days and twelve 30-day months) after all amounts payable prior thereto in the Interest Proceeds Waterfall on such Quarterly Distribution Date. For the avoidance of doubt, any amount distributed from the Reserve Account on any Quarterly Distribution Date shall be applied to pay amounts due under the Interest Proceeds Waterfall in accordance with the priority set forth therein and, as a result, any such amount shall be applied first to pay any other amounts payable under the Interest Proceeds Waterfall (which have not been paid from other Interest Proceeds) on such Quarterly Distribution Date, before such funds are applied to make distributions on the Preferred Securities.

#### CDS Reserve Account

The Trustee shall, prior to the Closing Date, cause to be established a single, segregated securities account which shall be designated as the "CDS Reserve Account," which shall be held in the name of the Trustee in trust for the benefit of the Secured Parties. The Trustee shall deposit in the CDS Reserve Account, in each case for investment in Synthetic Security Collateral, in accordance with the written instructions of the Collateral Manager on behalf of the Issuer, (i) the initial deposit on the Closing Date of approximately U.S.\$375,000,000 from the net proceeds of the offering of the Securities and the Up-Front Payment, (ii) such amounts as are required to be deposited into the CDS Reserve Account pursuant to the Priority of Payments, (iii) any Principal Reimbursements received by the Issuer in respect of any Credit Default Swaps, (iv) the excess (if any) of the amount of any Class A-1 Funding over the amount required to make a payment in connection with the applicable Permitted Use for which such Class A-1 Funding

was requested, (v) on any Quarterly Distribution Date, amounts in the Principal Collection Account required to be transferred to the CDS Reserve Account if a Notional Amount Shortfall exists, and (vi) amounts in the Principal Collection Account which the Collateral Manager elects to transfer either on the 10th calendar day of each month (or, if such day is not a Business Day, the next succeeding Business Day) or on one other day during any 30 consecutive days (in each case, on five Business Days notice to the Trustee and the Total Return Swap Counterparty) Any funds or other property standing to the credit of the CDS Reserve Account may be withdrawn therefrom: (1) to pay (A) Floating Amounts and Physical Settlement Amounts payable by the Issuer, (B) Swap Termination Payments payable by the Issuer and (C) to the extent required as such amounts become due and payable, Net Issuer Hedged Long Premiums payable by the Issuer under Hedged Long Credit Default Swaps, in each case in accordance with the Account Withdrawal Payment Priority, (2) after payment of all amounts due under the Credit Default Swaps, for deposit in the Principal Collection Account upon any Optional Redemption, Auction Call Redemption or Tax Redemption or the liquidation in full of the Collateral upon the Stated Maturity of the Notes or following the occurrence of an Event of Default, (3) to make a transfer to the Payment Account to fund the Junior Note Reduction Amount and to pay the Class A-1 Note Principal Amount so long as it will not result in or increase a Notional Amount Shortfall that is greater than zero, (4) at the option of the Collateral Manager, to make a transfer to the Principal Collection Account, to fund the Acquisition of Cash Collateral Debt Securities or Defeased Synthetic Securities prior to the end of the Reinvestment Period so long as no such Acquisition will result in or increase a Notional Amount Shortfall that is greater than zero and the Aggregate Principal Balance of the Credit Default Swaps is not less than 75% of the Net Outstanding Portfolio Collateral Balance, and any such transfer is made either on the 10th calendar day of each month (or, if such day is not a Business Day, the next succeeding Business Day) or on one other day during any 30 consecutive days (in each case, on five Business Days notice to the Trustee and the Total Return Swap Counterparty), (5) to make any payment or delivery required to be made under the Total Return Swap or a TRS Replacement and (6) as otherwise described herein, to pay the Outstanding Class A-1 Funded Amount. Transfers from the CDS Reserve Account to the Principal Collection Account are subject to additional restrictions under the Indenture.

All funds credited to the CDS Reserve Account shall be invested by the Trustee at the direction of the Issuer (or the Collateral Manager on behalf of the Issuer) in Synthetic Security Collateral which satisfies the Synthetic Security Collateral Criteria.

In addition, if on any Determination Date relating to a Quarterly Distribution Date, a CDS Reserve Account Excess exists, an amount equal to any CDS Reserve Account Excess Withdrawal Amount will, as and to the extent provided in the Pro Rata Payment Priority or the Sequential Payment Priority (whichever is applicable), be withdrawn and deposited to the Payment Account for application in accordance with the Pro Rata Payment Priority or the Sequential Payment Priority on the Quarterly Distribution Date relating to such Determination Date so long as, and only to the extent that, no Notional Amount Shortfall shall exist after such transfer. On any Determination Date on which any portion of the CDS Reserve Account Excess Withdrawal Amount would otherwise have been withdrawn from and redeposited to the CDS Reserve Account on such related Quarterly Distribution Date pursuant to the Priority of Payments, such portion shall be retained in the CDS Reserve Account by the Trustee and shall be deemed to be Principal Proceeds and to have been deposited to the CDS Reserve Account on such Quarterly Distribution Date with the same effect as if such amounts were deposited thereto in accordance with the Priority of Payments on such Quarterly Distribution Date. On the date on which substantially all of the Issuer's assets have been Disposed of, the Issuer shall direct the Trustee to transfer all funds and other property standing to the credit of the CDS Reserve Account to the Principal Collection Account for application as Principal Proceeds in accordance with the Priority of Payments.

Except to the extent (1) required in order for the Issuer to comply with its obligations in respect of any Remaining Exposure or Swap Termination Payments in respect of a Credit Default Swap or (2) such

transfer would cause or increase a Notional Amount Shortfall greater than zero, the Trustee, upon the Collateral Manager's direction, will transfer on each Quarterly Distribution Date, all interest and other income received in respect of Synthetic Security Collateral (which is not payable under the Total Return Swap) standing to the credit of the CDS Reserve Account to the Interest Collection Account for application as Interest Proceeds in accordance with the Priority of Payments on such Quarterly Distribution Date. Until any such transfer, all interest and other income from Synthetic Security Collateral standing to the credit of the CDS Reserve Account will be deposited in the CDS Reserve Account. Any gain realized from Synthetic Security Collateral standing to the credit of the CDS Reserve Account (which is not payable under the Total Return Swap) will be credited to the CDS Reserve Account, and any loss resulting from Synthetic Security Collateral will be charged to the CDS Reserve Account, in each case for the applicable Due Period in which such gain or loss occurs.

The Issuer expects to enter into the Total Return Swap with respect to the Synthetic Security Collateral. See "—The Total Return Swap."

The Trustee shall give the Issuer and the Credit Default Swap Counterparty prompt notice if it becomes aware that the CDS Reserve Account or any funds or other property standing to the credit of the CDS Reserve Account shall become subject to any writ, order, judgment, warrant of attachment, execution or similar process. Each Account shall remain at all times with a financial institution organized and doing business under the laws of the United States or any State thereof, authorized under such laws to exercise corporate trust powers and having a long-term debt rating of at least "Baa1" by Moody's (and, if rated "Baa1," not be on watch for possible downgrade by Moody's) and at least "BBB+" by Standard & Poor's and a combined capital and surplus in excess of U.S.\$250,000,000.

#### Synthetic Security Counterparty Accounts

For each Defeased Synthetic Security, the Trustee will establish a single, segregated account (each such account, a "Synthetic Security Counterparty Account") that will be held in the name of the Trustee in trust for the benefit of the related Synthetic Security Counterparty and over which the Trustee will have exclusive control and the sole right of withdrawal in accordance with the applicable Synthetic Security and the Indenture; *provided* that a single Synthetic Security Counterparty Account may be established for all (or a designated portion) of the Synthetic Securities with the same Synthetic Security Counterparty. The Trustee and the Issuer shall, in connection with the establishment of a Synthetic Security Counterparty Account, enter into a separate account control and security agreement with the Synthetic Security Counterparty setting forth the rights and obligations of the Issuer, the Trustee and the Synthetic Security Counterparty with respect to such account and pursuant to which the Issuer shall grant the Trustee a first priority security interest in such Synthetic Security Counterparty Account for the benefit of the Synthetic Security Counterparty; *provided* that no security interest in favor of a Synthetic Security Counterparty in such Synthetic Security Counterparty Account shall include any income from investments of funds in such Synthetic Security Counterparty Account to which the Issuer is entitled pursuant to the terms of such Synthetic Security. As directed by Issuer order (which may be executed by the Collateral Manager), the Trustee will withdraw from the Uninvested Proceeds Account or the Principal Collection Account and deposit into each Synthetic Security Counterparty Account the amount required to secure the obligations of the Issuer in accordance with the terms of the related Defeased Synthetic Security or Defeased Synthetic Securities, as applicable, which amount shall be at least equal to the amount referred to in paragraph (a) of the definition of Defeased Synthetic Security. The Collateral Manager will direct any such deposit during the Ramp-Up Period and during the Reinvestment Period and only to the extent that monies are available for the Acquisition of Collateral Debt Securities from Uninvested Proceeds and Disposition Proceeds in accordance with the terms of the Indenture. Notwithstanding the foregoing, after the Ramp-Up Period ends, the Issuer may Acquire Collateral Debt Securities that are the subjects of commitments entered into by the Issuer prior to the end of the Ramp-Up

Period. To the extent required by a Synthetic Security, the Trustee shall, as directed by Issuer order (which may be executed by the Collateral Manager), deposit the related Principal Shortfall Reimbursement Payments received by the Issuer into the applicable Synthetic Security Counterparty Account.

In accordance with the terms of the applicable Defeased Synthetic Security and related account control and security agreement, amounts standing to the credit of a Synthetic Security Counterparty Account shall be invested in Synthetic Security Collateral designated by the Synthetic Security Counterparty and approved by the Collateral Manager, which may be subject to derivatives transactions (including total return swaps) between the Issuer and the Synthetic Security Counterparty (or, subject to the consent of the Synthetic Security Counterparty and satisfaction of the Rating Condition, between the Issuer and other parties). Amounts and property credited to a Synthetic Security Counterparty Account shall be withdrawn by the Trustee and applied to the payment of any amounts payable by, or to the delivery of securities deliverable by, the Issuer to the related Synthetic Security Counterparty in accordance with the terms of such Defeased Synthetic Security or the related account control agreement. The Issuer also shall sell all or any part of the Synthetic Security Collateral at the times and in the manner provided in the applicable Synthetic Security. To the extent that the Issuer is entitled to receive interest on securities credited to a Synthetic Security Counterparty Account, the Collateral Manager shall, by Issuer order, direct the Trustee to deposit such amounts in the Interest Collection Account (and such amounts shall be Interest Proceeds). After payment of all amounts owing by the Issuer to a Synthetic Security Counterparty in accordance with the terms of the related Defeased Synthetic Security or termination of a Synthetic Security following an event described in clause (c) of the definition of "Defeased Synthetic Security" (in which event no termination payment shall be due from the Issuer to such Synthetic Security Counterparty), the Collateral Manager, by Issuer order, shall direct the Trustee to withdraw all funds and other property credited to the Synthetic Security Counterparty Account related to such Defeased Synthetic Security and credit such funds and other property to (i) the Principal Collection Account (in the case of cash and Eligible Investments), for application as Principal Proceeds (other than any investment income thereon, which will be Interest Proceeds) in accordance with the terms of the Indenture, and (ii) the Custodial Account (in the case of Collateral Debt Securities and other financial assets), which shall not be liquidated except in accordance with "Security for the Notes—Dispositions of Collateral Debt Securities"; *provided, however*, that if any other Defeased Synthetic Security secured by the same Synthetic Security Counterparty Account will remain in effect, (x) the funds and property to be withdrawn from the Synthetic Security Counterparty Account shall be selected in accordance with the Synthetic Security or the related account control agreement and (y) such withdrawal shall not cause the balance of the Synthetic Security Collateral in such Synthetic Security Counterparty Account to be less than the aggregate notional amount of the Synthetic Securities then in effect.

Except for interest on securities standing to the credit of a Synthetic Security Counterparty Account payable to the Issuer as described pursuant to the preceding paragraph, funds and other property standing to the credit of a Synthetic Security Counterparty Account shall not be considered to be an asset of the Issuer for purposes of the Collateral Quality Tests; however, the Defeased Synthetic Security that relates to such Synthetic Security Counterparty Account shall be considered an asset of the Issuer for such purposes.

Each Synthetic Security Counterparty Account shall remain at all times with a financial institution organized and doing business under the laws of the United States or any State thereof, authorized under such laws to exercise corporate trust powers and having a long-term debt rating of at least "Baa1" by Moody's (and, if rated "Baa1," not be on watch for possible downgrade by Moody's) and at least "BBB+" by Standard & Poor's and a combined capital and surplus in excess of U.S.\$250,000,000.

A modification to the terms of the Indenture relating to a Synthetic Security Counterparty Account will require the consent of any Synthetic Security Counterparty materially and adversely affected by such modification.

#### Synthetic Security Issuer Accounts

If the terms of any Synthetic Security require the Synthetic Security Counterparty to secure its obligations with respect to such Synthetic Security, the Trustee shall cause to be established a segregated, non-interest bearing Securities Account in respect of such Synthetic Security (each such account, a "Synthetic Security Issuer Account"), which shall be held in the name of the Trustee as Entitlement Holder in trust for the benefit of the Secured Parties; *provided* that a single Synthetic Security Issuer Account may be established for all (or a designated portion) of the Synthetic Securities with the same Synthetic Security Counterparty. Upon Issuer order, the Trustee, the Synthetic Security Counterparty and the Custodian shall enter into an account control agreement with respect to such account in a form substantially similar to the Account Control Agreement. The Trustee shall credit to any such Synthetic Security Issuer Account all funds and other property received from the applicable Synthetic Security Counterparty to secure the obligations of such Synthetic Security Counterparty in accordance with the terms of such Synthetic Security.

A Synthetic Security Issuer Account will be established for MLI on the Closing Date.

Amounts credited to a Synthetic Security Issuer Account shall be invested as directed by an Issuer order executed by the Collateral Manager in writing and in accordance with the terms of the applicable Synthetic Security in Synthetic Security Collateral. Income received on amounts credited to such Synthetic Security Issuer Account shall be withdrawn from such account and paid to the related Synthetic Security Counterparty in accordance with the terms of the applicable Synthetic Security.

Funds and other property standing to the credit of any Synthetic Security Issuer Account shall not be considered to be an asset of the Issuer for purposes of any of the Collateral Quality Tests; however, the Synthetic Security that relates to such Synthetic Security Issuer Account shall be considered an asset of the Issuer for such purposes.

In accordance with the terms of the applicable Synthetic Security or account control agreement, funds and other property standing to the credit of the related Synthetic Security Issuer Account shall, as directed by the Collateral Manager by Issuer order, be withdrawn by the Trustee and applied to the payment of any amount owing by the related Synthetic Security Counterparty to the Issuer under the applicable Synthetic Security or Synthetic Securities. After payment of all amounts owed by the Synthetic Security Counterparty to the Issuer in accordance with the terms of the related Synthetic Security, all funds and other property standing to the credit of the related Synthetic Security Issuer Account shall be withdrawn from such Synthetic Security Issuer Account and paid or transferred to the related Synthetic Security Counterparty in accordance with the applicable Synthetic Security; *provided, however*, that if the obligations of the same Synthetic Security Counterparty under another Synthetic Security which will remain in effect are secured by the same Synthetic Security Issuer Account, the amount withdrawn therefrom shall not cause the remaining balance thereof to be less than the amount required to be posted by the Synthetic Security Counterparty to secure its obligations under the Synthetic Securities which will remain in effect.

Each Synthetic Security Issuer Account shall remain at all times with a financial institution organized and doing business under the laws of the United States or any State thereof, authorized under such laws to exercise corporate trust powers and having a long-term debt rating of at least "Baa1" by

Moody's (and, if rated "Baa1," not be on watch for possible downgrade by Moody's) and at least "BBB+" by Standard & Poor's and a combined capital and surplus in excess of U.S.\$250,000,000.

A modification of the terms of the Indenture relating to a Synthetic Security Issuer Account will require the consent of any Synthetic Security Counterparty materially and adversely affected thereby.

#### Class A-1 Swap Prefunding Accounts

If the Class A-1 Swap Counterparty does not at any time prior to the Swap Period Termination Date satisfy the Class A-1 Rating Criteria and does not assign the Class A-1 Swap to a Person that meets the Class A-1 Rating Criteria, or obtain a guarantee that meets the Class A-1 Rating Criteria, the Class A-1 Swap Counterparty is required under the Class A-1 Swap to be established and maintained by the Custodian, an Account (the "Class A-1 Swap Prefunding Account"), which Account shall be in the name of the Trustee in trust for the benefit of the Secured Parties. The Class A-1 Swap Counterparty, the Trustee and the Issuer shall enter into an account control agreement (each a "Class A-1 Swap Prefunding Account Control Agreement") with the Custodian in respect of such Class A-1 Swap Prefunding Account in a form satisfactory to each such party. The Class A-1 Swap Counterparty will remit to the Trustee for credit to such Class A-1 Swap Prefunding Account Cash or Class A-1 Swap Prefunding Account Eligible Investments, the aggregate outstanding principal amount of which is equal to the Class A-1 Swap Prefunding Amount. The Trustee shall cause all such Cash or Class A-1 Swap Prefunding Account Eligible Investments received by it from the Class A-1 Swap Counterparty to be credited to the Class A-1 Swap Prefunding Account.

As directed by a written notice from the Class A-1 Swap Counterparty to the Trustee, funds standing to the credit of a Class A-1 Swap Prefunding Account may be invested and reinvested in Class A-1 Swap Prefunding Account Eligible Investments. Income received on funds or other property credited to such Class A-1 Swap Prefunding Account shall be withdrawn from such Class A-1 Swap Prefunding Account monthly on the last Business Day of each month and paid to the Class A-1 Swap Counterparty. None of the Co-Issuers or the Trustee shall in any way be held liable for reason of any insufficiency of any Class A-1 Swap Prefunding Account resulting from any loss relating to any investment of funds standing to the credit of such account.

Funds and other property standing to the credit of any Class A-1 Swap Prefunding Account shall not be considered to be an asset of the Issuer for purposes of any of the Collateral Quality Tests.

The Class A-1 Swap Counterparty's obligation to make Class A-1 Fundings under the Class A-1 Swap will be satisfied by the Trustee's withdrawing funds then standing to the credit of the Class A-1 Swap Prefunding Account and issuing Class A Notes to the Class A-1 Swap Counterparty in the same principal amount.

Funds and other property on deposit in the Class A-1 Swap Prefunding Account shall be withdrawn from such account and applied to fund Class A-1 Fundings for Permitted Uses pursuant to the Class A-1 Swap if the conditions to a Class A-1 Funding have been satisfied, and shall be reimbursed to the Class Swap Counterparty when required pursuant to the Class A-1 Swap. Funds and other property on deposit in the Class A-1 Swap Prefunding Account will not be available to the Issuer for payments to any Secured Parties other than the Credit Default Swap Counterparty (in connection with a Permitted Use only), the Noteholder and the Class A-1 Swap Counterparty. If the Class A-1 Swap Counterparty has deposited its Class A-1 Prefunding Amount in a Class A-1 Swap Prefunding Account pursuant to the Class A-1 Swap, (i) the Trustee will apply a portion of such amount on the date of a Class A-1 Funding to the relevant Permitted Use in accordance with the Class A-1 Swap in an amount equal to the total amount specified in the applicable Class A-1 Funding Request and (ii) without regard to the Priority of Payments,

the Trustee will pay directly to the Class A-1 Swap Counterparty any interest in an amount equal to earnings in respect of Eligible Investments standing to the credit of the Class A-1 Swap Prefunding Account. Investment earnings on Eligible Investments standing to the credit of the Class A-1 Swap Prefunding Account will not be transferred to the Interest Collection Account or treated as Interest Proceeds. None of the Co-Issuers or the Noteholders other than the Class A-1 Swap Counterparty will have any rights to the amounts in the Class A-1 Swap Prefunding Account except to satisfy the obligations of the Class A-1 Swap Counterparty to the Co-Issuers.

The Trustee shall withdraw all funds and other property standing to the credit of the Class A-1 Swap Prefunding Account and pay or transfer the same to the Class A-1 Swap Counterparty pursuant to and in accordance with the Class A-1 Swap.

The Class A-1 Swap Prefunding Account shall remain at all times with a financial institution organized and doing business under the law of the United States or any State thereof, authorized under such law to exercise corporate trust powers and having a long term debt rating of at least "Baa1" by Moody's (and, if rated, "Baa1," not be on the watch for possible downgrade by Moody's) and at least "BBB+" by Standard & Poor's and have a combined capital and *surplus* in excess of U.S.\$250,000,000.



## THE COLLATERAL MANAGER

*The information appearing in this Section "The Collateral Manager" has been prepared by Harding Advisory LLC ("Harding Advisory") and has not been independently verified by the Co Issuers, the Placement Agent, the Initial Purchaser, the Trustee or any other person. Accordingly, none of the Co Issuers, the Placement Agent, the Initial Purchaser, the Trustee nor any of their respective affiliates assume any responsibility for the accuracy, completeness or applicability of such information. The Collateral Manager accepts responsibility for the information contained in this section and, to the best of its knowledge, such information is in accordance with the facts and does not omit anything likely to affect the import of such information.*

### General

Harding Advisory will act as Collateral Manager. Harding Advisory is a Delaware limited liability company organized on February 22, 2006. Harding Advisory is a registered investment adviser under the Investment Advisers Act of 1940. Harding Advisory has a limited prior operating history. Mr. Wing Chau currently owns substantially all of the membership interests of Harding Advisory.

Harding Advisory may share with Maxim Advisory LLC ("Maxim") a portion of the management fees it receives from the Issuer under the Collateral Management Agreement, but Maxim will not be responsible for managing any portion of the Collateral and will not have any obligations to the Issuer, the Trustee or the holders of the Securities. None of the Issuer, the Trustee and the holders of the Securities will have any claim against Maxim for any actions taken by the Collateral Manager.

Additional information about Harding Advisory, including a complete copy of Harding Advisory's most recent Form ADV, is available to investors upon request (to the extent that it has been prepared and is available to be so provided).

### Key Personnel

As Collateral Manager, Harding Advisory will be responsible for selecting and monitoring the collateral portfolio and performing other obligations under the Collateral Management Agreement. Mr. Wing Chau will oversee the management of the Collateral. Set forth below is information regarding certain key professionals. Although Mr. Wing Chau and the officers of Harding responsible for managing the Collateral have substantial experience in managing assets for CDO issuers, Harding Advisory is a recently formed entity and it has a limited history in acting as collateral manager for entities similar to the Issuer. Harding Advisory has limited experience acting as collateral manager for entities similar to the Issuer. Harding Advisory currently acts as the collateral manager for Lexington Capital Funding II, Ltd. and Jupiter High-Grade CDO IV Ltd., special purpose entities that issued CDO Securities in June 2006. Harding Advisory also serves as a sub-advisor to Maxim for Jupiter High-Grade CDO Ltd., Jupiter High-Grade CDO II Ltd., Jupiter High-Grade CDO III Ltd. and Lexington Capital Funding, Ltd., special purpose entities that in December 2004, March 2005, August 2005 and October 2005, respectively, issued CDO Securities and for which Maxim acts as the collateral manager.

Any loss of the services of employees of the Collateral Manager responsible for monitoring the Collateral Debt Securities and the failure to hire qualified replacements may adversely affect the ability of the Collateral Manager to monitor the portfolio of Collateral Debt Securities. The failure of Mr. Chau to be a director, officer or management-level employee actively involved in managing the Collateral, unless an Approved Replacement for Mr. Chau exists, will constitute "cause" for purposes of removal of the Collateral Manager pursuant to the Collateral Management Agreement.

**Wing Chau, President**

Mr. Chau has over twelve years experience in the ABS industry. He currently owns substantially all of the membership interests of Harding Advisory and he is also Chief Executive Officer and President. He was a Managing Director of Maxim from May 2004 to December 2005 and has been President since January 2006. From 2001 to 2004, Mr. Chau was the senior ABS trader at Nomura and SG Cowen, where he was in charge of both new issue ABS syndicates and secondary trading. From 1999 to 2001, Mr. Chau was a portfolio manager for New York Life and was responsible for investments in ABS/CMBS/REIT portfolios. In addition, he helped spearhead the successful execution of New York Life's first multisector ABS collateralized debt obligation transaction. From 1994 to 1999, Mr. Chau was a senior ABS research analyst with Salomon Smith Barney and Prudential Securities. Mr. Chau received a B.A. in Economics from the University of Rhode Island in 1988 and an M.B.A. in Finance from Babson College in 1993.

**James Drury, Managing Director**

Mr. Drury has over twenty-five years experience in fixed income research, primarily corporate credit research. Prior to joining Harding in September 2006, he was a Director and senior analyst in New York Life Investment Management's Fixed Income Investors Group, responsible for coverage of a number of high grade industrial sectors owned in NYLIM's \$40 billion high grade public bond portfolio, including, among others, the airline, auto, and aerospace sectors. Prior to joining NYLIM in 2000, Mr. Drury was Assistant PM and senior analyst at Invesco, Inc. in New York, where in addition to his portfolio management responsibilities he covered the high yield chemicals, metals, energy, auto, and general industrial sectors. Prior to joining Invesco, Mr. Drury worked for fourteen years on the sell-side in high grade credit research, most notably at Prudential Securities from 1986 to 1993 and at Bear Stearns from 1993 to 1998. Mr. Drury was named to Institutional Investor's All-America research team once at Prudential and in five of the six pollings taken during his time at Bear Stearns. Mr. Drury began his career in corporate credit research at Standard & Poor's Corp., which he joined from Price Waterhouse in 1981. Mr. Drury received an M.B.A. in Finance from NYU's Stern School of Business in 1985 and a B.S. in Accounting from the University of Delaware in 1977. He received his CFA charter in 1987.

**Tony Huang, Managing Director**

Mr. Huang has over twelve years of experience in the structured credit products area. Prior to joining Harding Advisory, Mr. Huang was a managing director at Maxim responsible for portfolio management and CDO structuring and trading. He was also a portfolio manager at Highland Capital Management where he was responsible for the CDO, ABS and RMBS markets. He was also responsible for the synthetic business (both corporate and ABS) at Highland. Mr. Huang was also a portfolio manager for Zurich Global Investment Advisors where he managed an opportunistic structured credit portfolio consisting primarily of CDOs and subprime mortgage products. From 1996 to 2003, he was a senior member of the structured credit group at Centre Solutions. Mr. Huang began his career at JP Morgan where he helped develop and model structured credit derivative products. Mr. Huang received a B.S. in Physics from California Institute of Technology and a M.S. in Physics from Cornell University.

**Richard Chin, Director**

Mr. Chin has over 19 years of experience in the RMBS industry. Prior to joining Harding Advisory, Mr. Chin was a portfolio manager at Watch Hill Investment Partners, where he managed across multiple sectors of the agency mortgage market, employed CMO-derivative hedges, and refined risk-management tools to better characterize duration, curve, basis, volatility and time decay risks of assets and associated hedges. From 2002 to 2004, Mr. Chin was a director at Beacon Capital Strategies, developing relative value systems and tools. Prior to that, Mr. Chin held various research roles at Merrill Lynch, Goldman Sachs and Prudential Securities. Mr. Chin began his career at PaineWebber in the CMO

structuring group. Mr. Chin received a Masters in Mechanical Engineering from Massachusetts Institute of Technology and a B.S. in Engineering from City College of New York.

**Jamie Moy, Director**

Ms. Moy has ten years experience in structured finance and fixed income, most recently at Maxim where she was a director and was part of the team responsible for credit research and risk management for Maxim's CDO management team. Prior to joining Maxim, she worked at Credit Suisse managing credit risk for the ABS business including derivative exposures, the mortgage and ABS conduit business, and the mortgage warehousing portfolio. Prior to Credit Suisse, Ms. Moy was a Director at Fitch Ratings, where she was responsible for a wide range of mortgage products and accounts. Ms. Moy began her career as an associate in the RMBS group at DLJ and as an analyst in the RMBS group at Moody's Investor Service. Ms. Moy received a B.S.B.A. from Boston University.

**Xilun Chen, Vice President**

Mr. Chen has over six years experience in structured finance and fixed income. Prior to joining Harding Advisory, Mr. Chen was a Vice President at Maxim and was part of the team responsible for credit research and risk management for Maxim's CDO management team. Prior to joining Maxim, he was an associate portfolio manager at BlueMountain Capital Management, where he was responsible for structuring, marketing and execution of the fund's CLO and bespoke synthetic CDO portfolios. Prior to BlueMountain, he was an assistant vice president at Ambac Assurance, where he was responsible for analyzing CLOs, Trups CDOs and insurance securitizations. Prior to that, he was a credit research analyst focusing on industrials, aerospace/defense and airlines at JPMorgan. Mr. Chen began his career as a structurer and marketer for CDOs at JPMorgan. He received a B.A. cum laude from Columbia University.

**Alison Wang, Vice President**

Ms. Wang has over nine years experience advising clients in the structuring and tax implications of various corporate transactions. She has analyzed and advised on many public and private corporate financings, including the offer and sale of various structured finance products. Prior to joining Maxim Advisory, Ms. Wang was a Vice-President at Maxim and was part of the team responsible for credit research and risk management for Maxim's CDO management team. Prior to joining Maxim, she practiced law at the law firm of Covington & Burling. Ms. Wang began her career as an associate at Price Waterhouse. She received a B.S., magna cum laude, from the Wharton School of the University of Pennsylvania, a J.D. from the Columbia University School of Law and a L.L.M. from the New York University School of Law.

**Jung Lieu, Assistant Vice President**

Ms. Lieu has five years experience in the structured finance area. Prior to joining Harding Advisory, Ms. Lieu was an assistant vice president at Maxim Advisory and was part of the team responsible for credit research and risk management for Maxim's CDO management team. Previously, she was an associate director covering RMBS at Fitch Ratings where she was responsible for reviewing proposed transaction structures and related documentation as well as analyzing and monitoring RMBS collateral characteristics. Prior to that, she was a credit research analyst in the financial institutions group at Metropolitan Life Insurance Company. Ms. Lieu began her career as an ABS analyst at Metropolitan Life where she monitored a broad range of sectors, including CDOs, mortgage-backed securities, credit cards and auto loans. Ms. Lieu received a B.S. in Business Administration from Washington University.

In certain circumstances, the interests of the Issuer and/or the holders of the Securities with respect to matters as to which the Collateral Manager is advising the Issuer may conflict with the interests

of the Collateral Manager and its affiliates. See "Risk Factors—Conflicts of Interest Involving the Collateral Manager" and "—Dependence on the Collateral Manager and Key Personnel."

## THE COLLATERAL MANAGEMENT AGREEMENT

### General

On or prior to the Closing Date, the Issuer will enter into a Collateral Management Agreement (the "Collateral Management Agreement") Harding Advisory LLC (the "Collateral Manager" or "Harding Advisory") whereby the Issuer will appoint the Collateral Manager and the Collateral Manager will undertake to select all Collateral Debt Securities to be purchased by the Issuer on the Closing Date and until the end of the Reinvestment Period and make Hedge Rebalancing Purchases after the Reinvestment Period and to perform certain other advisory and administrative tasks for or on behalf of the Issuer. Such other services include (i) monitoring the Collateral and providing to the Issuer all reports and other data that the Issuer is required to prepare and deliver under the Indenture, where such reports are not prepared and delivered by the Collateral Administrator, and subject to the Collateral Manager's receipt of all necessary information in a timely manner from the Trustee and the Collateral Administrator, as applicable, (ii) selecting the portfolio of Collateral Debt Securities and Eligible Investments to be purchased by the Issuer, (iii) effecting the Acquisition or Disposition of the Collateral Debt Securities and the Eligible Investments (including the reinvestment of proceeds therefrom as permitted by the Indenture), (iv) instructing the Trustee with respect to any Disposition of or tender for a Collateral Debt Security or Eligible Investments, (v) assisting the Issuer in determining the fair market value of Collateral Debt Securities in accordance with procedures set forth in the Indenture and consulting with the Issuer regarding approved replacement dealers and approved pricing services used to make such determination, (vi) negotiating (as appropriate) with the issuers of the Collateral Debt Securities and the Eligible Investments, (vii) determining the rights and remedies of the Issuer in connection with the Collateral Debt Securities and the Eligible Investments, (viii) assisting the Issuer in connection with redemptions and auctions, (ix) selecting and negotiating Hedge Agreements and Synthetic Securities, (x) consulting with the Rating Agencies and providing information reasonably requested or required by the Indenture, (xi) performing the duties and obligations of the Collateral Manager required by the Indenture to the extent and as set forth in the Collateral Management Agreement and (xii) consulting with the Issuer regarding replacement or successor Trustees, Calculation Agents, Note Registrars and accountants.

### Amendment of the Collateral Management Agreement

The Collateral Management Agreement may not be supplemented, amended or modified in any manner except by a written agreement executed by all the parties to the Collateral Management Agreement and only if (i) the Rating Condition is satisfied, (ii) the Credit Default Swap Counterparty shall have consented, and (iii) if such agreement could reasonably be expected to have a material adverse effect on the interests of any Hedge Counterparty (if such provision is provided in the applicable Hedge Agreement), each such Hedge Counterparty shall have consented.

For so long as any of the Notes are listed on any stock exchange, the Issuer will cause a copy of any amendment or modification to the Collateral Management Agreement to be sent to such stock exchange.

### Indemnification

The Issuer will indemnify and hold harmless the Collateral Manager, its affiliates and each of the directors, officers, stockholders, partners, members, managers, agents and employees of the Collateral Manager or any of their respective affiliates from and against any and all losses, claims, damages, judgments, assessments, costs or other liabilities, and reimburse such indemnified party for all reasonable fees and expenses (including reasonable fees and expenses of counsel), incurred by any such indemnified party in investigating, preparing, pursuing or defending any claim, action, proceeding or investigation

with respect to any pending or threatened litigation or investigation or inquiry by any governmental entity or self-regulatory organization to which such indemnified party belongs, caused by, or arising out of or in connection with, the issuance of the Securities, the transactions contemplated by the this Offering Memorandum, the Indenture or the Collateral Management Agreement, and/or any action taken by, or any failure to act by, such indemnified person; *provided* that no such person shall be indemnified for any such liabilities or expenses arising (i) as a result of acts or omissions constituting bad faith, willful misconduct, gross negligence or reckless disregard in the performance of its obligations under the Collateral Management Agreement and (ii) with respect to the information concerning the Collateral Manager provided by it in writing for inclusion in this Offering Circular under the heading "The Collateral Manager" and the subsections of the Risk Factors entitled "Conflicts of Interest Involving the Collateral Manager," "Dependence on the Collateral Manager" and "Relation to Prior Investment Results" containing any untrue statement of material fact or omitting to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. Any such indemnification by the Issuer will be paid in accordance with the Priority of Payments.

### **Standard of Care and Limitation on Liability**

The Collateral Manager shall, subject to the terms and conditions of the Collateral Management Agreement and the Indenture, perform its obligations thereunder (including with respect to any exercise of discretion) with reasonable care (i) using a degree of skill and attention no less than that which the Collateral Manager exercises with respect to comparable assets, if any, that it manages for itself and (ii) without limiting the foregoing, in a manner consistent with the customary standards, policies and procedures followed by institutional managers of national standing relating to assets of the nature and character of the Collateral (such standard of care, the "Collateral Manager Standard of Care"). The Collateral Manager shall comply with all the terms and conditions of the Indenture that have been expressly delegated to it thereunder and under the Collateral Management Agreement.

The Collateral Manager, its directors, officers, stockholders, partners, members, agents and employees and its affiliates and their directors, officers, stockholders, partners, members, managers, agents and employees, will not be liable to the Co-Issuers, the Trustee, the Preferred Security Paying Agent, the Noteholders, the Holders of Preferred Securities, any Hedge Counterparty, the Credit Default Swap Counterparty or any other person for any losses, claims, damages, judgments, assessments, costs or other liabilities incurred by the Co-Issuers, Trustee, the Preferred Security Paying Agent, the Noteholders, the Holders of Preferred Securities, any Hedge Counterparty, the Credit Default Swap Counterparty or any other person for any action taken or omitted to be taken by any of them under the Collateral Management Agreement or in connection therewith; *provided, however*, that the Collateral Manager may incur liability to the Issuer under the Collateral Management Agreement by reason of (i) any act or omission constituting bad faith, willful misconduct, gross negligence or reckless disregard in the performance of the Collateral Manager's obligations under the Collateral Management Agreement and (ii) the information concerning the Collateral Manager provided by it in writing for inclusion in this Offering Circular under the heading "The Collateral Manager" and the subsections of the Risk Factors entitled "Conflicts of Interest Involving the Collateral Manager," "Dependence on the Collateral Manager and Key Personnel" and "Relation to Prior Investment Results" containing any untrue statement of material fact or omitting to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The Collateral Manager will not be liable for any actions taken or omitted to be taken at the express direction of the Issuer, the Trustee or other person entitled under the Indenture to give such direction.

The Collateral Manager shall not be bound to follow any amendment to the Indenture until it has received written notice thereof, and has received a copy of the amendment from the Issuer or the Trustee, *provided* that the Collateral Manager shall not be bound by any amendment to the Indenture that (x)

materially increases the duties or increases the liabilities of the Collateral Manager or (y) materially affects the manner in which the Collateral Manager is required to manage the Collateral.

### **Assignment**

Except with respect to a successor to the Collateral Manager's business, the Collateral Manager may not assign or delegate its rights or obligations under the Collateral Management Agreement except (a) any assignment or delegation to an Affiliate of the Collateral Manager that does not constitute an "assignment" as defined in the Advisers Act or (b) an assignment or delegation which (i) is to an Eligible Successor, (ii) is consented to by holders of at least 66-2/3% in Aggregate Outstanding Amount of each Class of Notes (voting as a single class), (iii) is consented to by holders of at least 66-2/3% of Preferred Securities and the Class A-1 Swap Counterparty and (iv) satisfies the Rating Condition; *provided that*, subject to the Collateral Management Agreement, any corporation, partnership or limited liability company into which the Collateral Manager may be merged or converted or with which it may be consolidated, or any corporation, partnership or limited liability company resulting from any merger, conversion or consolidation to which the Collateral Manager shall be a party, or any corporation, partnership or limited liability company succeeding to all or substantially all of the collateral management business of the Collateral Manager, shall be the successor to the Collateral Manager without any further action by the Collateral Manager, the Issuer, the Trustee, the Noteholders, the Holders of Preferred Securities, the Class A-1 Swap Counterparty or any other Person.

### **Termination of the Collateral Management Agreement**

#### Automatic Termination

The Collateral Management Agreement will automatically terminate upon the earliest to occur of (i) the payment in full of the Notes and the termination of the Indenture in accordance with its terms and the redemption of the Preferred Securities, (ii) the liquidation of the Collateral and the final distribution of the proceeds of such liquidation as provided in the Indenture or (iii) the Issuer has been advised by nationally recognized counsel in the relevant jurisdiction that (x) the Issuer, the Co-Issuer or the pool of Collateral has become required to be registered under the provisions of the Investment Company Act, and the Issuer notifies the Collateral Manager thereof or (y) the conduct of the Collateral Manager has caused the Issuer to become subject to net income, franchise or similar tax outside the Issuer's jurisdiction of incorporation.

#### Removal for Cause

The Collateral Manager may be removed for cause, by holders of more than 66 2/3% of the aggregate outstanding principal amount of each Class of Notes (voting as a single class) and at least 66 2/3% of the Preferred Securities, in each case excluding Collateral Manager Securities, upon 15 business days' prior written notice to the Collateral Manager with a copy to each Hedge Counterparty and the Credit Default Swap Counterparty. Each of the following events with respect to the Collateral Manager will constitute "cause":

- (i) the willful bad breach of any provision of the Collateral Management Agreement or any term of the Indenture applicable to the Collateral Manager;
- (ii) breach in any material respect of any provision of the Collateral Management Agreement or any terms of the Indenture applicable to the Collateral Manager and failure to cure such breach within 30 days after notice of such failure is given to the Collateral Manager;

- (iii) the Collateral Manager consolidates or amalgamates with, or merges with or into, or transfers all or substantially all its assets to, another person and 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 by operation of law or pursuant to an agreement reasonably satisfactory to the Issuer or the creditworthiness of the resulting, surviving or transferee person is materially weaker than that of the Collateral Manager immediately prior to such action;
- (iv) insolvency, dissolution, winding-up or liquidation of the Collateral Manager or the institution of a proceeding seeking a judgment of insolvency or bankruptcy, subject to certain cure periods;
- (v) Any action taken by the Collateral Manager that constitutes fraud against the Issuer;
- (vi) the occurrence of any act constituting fraud or a felony conviction of the Collateral Manager or any of its principals, or the indictment of the Collateral Manager for, judgment against the Collateral Manager in a civil suit for, or the conviction of the Collateral Manager of, a violation of the Securities Act or any other United States Federal securities law or any rules or regulations thereunder;
- (vii) the indictment of any officer or director of the Collateral Manager who has supervisory responsibility for the investment activities of the Issuer for fraud, false statements or omissions, wrongful taking of property, bribery, forgery, counterfeiting or extortion;
- (viii) an Event of Default occurs under clause (a) or (b) under the heading "Description of the Notes—The Indenture—Events of Default" or any other Event of Default occurs which is the result of a breach by the Collateral Manager of its duties under the Indenture or the Collateral Management Agreement, which breach or default is not cured within any applicable cure period;
- (ix) a representation made or deemed to have been made by the Collateral Manager in or pursuant to the Collateral Management Agreement proves to have been incorrect or misleading in any material respect when made or deemed to have been made, such misrepresentation has a material adverse effect on the holders of the Notes of any Class or Holders of Preferred Securities and such misrepresentation (if remediable) is not remedied on or before the 30th day after written notice of such failure is given to the Collateral Manager; and
- (x) Mr. Wing Chau shall fail, for any reason, to be a director, officer or management-level employee of the Collateral Manager who is actively involved in the management of Collateral Debt Securities unless a replacement therefor (an "Approved Replacement") shall (A) have been proposed by the Collateral Manager within 30 days of such failure and (B) not have been objected to in writing by the Noteholders entitled to so object as specified in the Indenture within 30 days after the date such Noteholders receive notice of such proposed replacement.

#### Removal without Cause

The Collateral Manager may not be removed without cause.



### Eligible Successor

At any time following the Ramp-Up Completion Date, the Collateral Manager may resign on 90 days written notice to the Issuer (or such shorter notice as is acceptable to the Issuer) and appointment of an Eligible Successor as Collateral Manager. No termination of the Collateral Management Agreement or resignation of the Collateral Manager is effective unless; (i) an Eligible Successor has agreed in writing to assume all of the Collateral Manager's duties and obligations under the Collateral Management Agreement, (ii) such Eligible Successor has not been objected to by Holders of at least 66-2/3% in Aggregate Outstanding Amount of the Controlling Class, the Holders of Preferred Securities and the Class A-1 Swap Counterparty within 30 days after notice of appointment of the successor Collateral Manager, (iii) 10 days' prior notice has been given to the Rating Agencies, the Trustee, the Credit Default Swap Counterparty and the Hedge Counterparty (iv) such termination and assumption by an Eligible Successor satisfies the Rating Condition; *provided, however*, that if a replacement Collateral Manager is not appointed or has not assumed the duties of new Collateral Manager within 60 days of the date scheduled for termination or resignation, the resigning or terminated Collateral Manager may petition a court of competent jurisdiction for the appointment of a successor Collateral Manager (which appointment will not be subject to Issuer, security holder or Rating Agency consent). The resigning or terminated Collateral Manager shall be entitled to all Senior Management Fees and Subordinated Manager Fees accrued through the effective date of such termination or resignation, which amounts shall be paid to the Collateral Manager in accordance with the Priority of Payments.

### **Compensation**

As compensation for the performance of its obligations under the Collateral Management Agreement, the Collateral Manager (and/or at its direction, an affiliate of the Collateral Manager) will be entitled, to the extent there are funds available therefor in accordance with the Priority of Payments, to receive a Senior Management Fee (the "Senior Management Fee") equal to 0.10% per annum of the Quarterly Asset Amount on each Quarterly Distribution Date. In addition, the Collateral Manager (and/or at its direction, an affiliate of the Collateral Manager) will be entitled, to the extent there are funds available therefor in accordance with the Priority of Payments, to receive an additional fee, equal to 0.05% per annum of the Quarterly Asset Amount on each Quarterly Distribution Date (the "Subordinated Management Fee" and, together with the Senior Management Fee, the "Management Fee"). See "Description of the Notes—Priority of Payments." Any unpaid Management Fee that is deferred (whether as a result of the operation of the Priority of Payments as described herein or at the option of the Collateral Manager) shall be paid on the next succeeding Quarterly Distribution Date to the extent funds are available for such purpose in accordance with the Priority of Payments and shall not accrue interest. In addition, on the Closing Date, the Issuer will pay an up-front collateral management fee to the Collateral Manager in the amount of U.S.\$1,000,000.

The Collateral Manager will be responsible for its own ordinary expenses incurred in the course of performing its obligations under the Collateral Management Agreement; *provided* that the Issuer will pay and the Collateral Manager shall not be liable for (a) expenses and costs incurred in negotiating with issuers of Collateral Debt Securities 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 Collateral Debt Securities and Eligible Investments, including in connection with an Offer or default, participating in committees or other groups formed by creditors of an issuer of Collateral Debt Securities and consulting with and providing each Rating Agency with any information in connection with the maintenance of the ratings of the Notes, (b) fees, expenses and costs of legal advisers (including reasonable expenses and costs associated with the use of internal legal counsel of the Collateral Manager) retained by the Issuer or by the Collateral Manager, on behalf of the issuer, in connection with the services provided by the Collateral Manager pursuant to the Collateral Management Agreement, (c)

reasonable expenses and costs of consultants and other professionals reasonably retained by the Issuer or the Collateral Manager on behalf of the Issuer in connection with the services provided the Collateral Manager pursuant to the Collateral Management Agreement and (d) reasonable travel expenses (airfare, meals, lodging and other transportation) incurred by the Collateral Manager as is reasonably necessary in connection with the default or restructuring of any Collateral Debt Security, and certain other expenses and costs set forth in the Collateral Management Agreement.

### **Tax Restrictions**

The Collateral Manager will be bound by various U.S. Federal income tax-related restrictions that are specified in the Collateral Management Agreement.

### **Conflicts**

In certain circumstances, the interests of the Issuer and/or the holders of the Securities with respect to matters as to which the Collateral Manager is advising the Issuer may conflict with the interests of the Collateral Manager and its Affiliates. See "Risk Factors—Certain Conflicts of Interest."

## INCOME TAX CONSIDERATIONS

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

### **In General**

IN THE EVENT THAT THE CLASS D NOTES, THE CLASS E NOTES, CLASS F NOTES OR THE CLASS G NOTES WERE TO BE TREATED BY THE IRS OR THE COURTS AS EQUITY, THE DISCUSSION UNDER "TAX TREATMENT OF U.S. HOLDERS OF PREFERRED SECURITIES" PERTAINING TO HOLDERS OF PREFERRED SECURITIES WHO DO NOT MAKE A TIMELY QEF ELECTION WILL APPLY TO U.S. HOLDERS OF CLASS D NOTES, CLASS E NOTES, CLASS F NOTES OR CLASS G NOTES.

The following summary describes the principal U.S. Federal income tax and Cayman Islands tax consequences of the purchase at initial issuance of the Notes and the ownership and disposition of the Notes. 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 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, insurance companies, subsequent purchasers of Notes, persons that own (directly or indirectly) equity interests in holders of Notes and holders that purchase the Notes for prices other than the respective Issue Prices of the Notes. In addition, this summary does not describe any tax consequences arising under the laws of any state, locality or taxing jurisdiction other than the U.S. Federal government and the Cayman Islands. In general, this summary assumes that a holder acquires Notes at original issuance and holds such Notes as a capital asset and not as part of a hedge, a straddle, or a conversion transaction within the meaning of Section 1258 of the U.S. Internal Revenue Code of 1986, as amended (the "Code"), a constructive sale transaction within the meaning of Section 1259 of the Code or an integrated transaction. This summary is based on United States and Cayman Islands tax laws, regulations, rulings and decisions in effect or available on the date of this Offering Circular. All of the foregoing are subject to change, which change may apply retroactively and could affect the continued validity of this summary.

This summary is included herein for general information only and there can be no assurance that the tax consequences of an investment in the Notes will be favorable or that such consequences will be as described herein.

As used in this section, the term "U.S. holder" means a beneficial owner of a Note who or that is (i) a citizen or resident of the United States, (ii) an entity taxable as a corporation for U.S. Federal income tax purposes, which is created or organized in or under the laws of the United States, any state therein or the District of Columbia, (iii) an estate (other than a foreign estate defined in Section 7701(a)(31)(A) of

the Code) or (iv) a trust if a court within the United States is able to exercise primary supervision over such trust's administration and one or more U.S. persons have the authority to control all substantial decisions of such trust and certain other trusts that were in existence on August 20, 1996 and that elect to continue to be treated as U.S. persons. The term "non-U.S. holder" means a beneficial owner of a Note who or that is not a U.S. holder.

U.S. persons and non-U.S. persons who own an interest in a holder which is treated as a pass-through entity under the Code will generally receive the same tax treatment, with respect to the material tax consequences of their indirect ownership of the Notes, as is described herein for direct U.S. holders and non-U.S. holders, respectively. Nonetheless, such persons should consult their tax advisors with respect to their particular circumstances, including for issues related to tax elections and information reporting requirements.

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

**U.S. Federal Tax Considerations**

For U.S. Federal income tax purposes, the Issuer, and not the Co-Issuer, will be treated as the sole issuer of the Notes.

*Tax Treatment of the Issuer*

Schulte Roth & Zabel LLP, special U.S. Federal income tax counsel to the Issuer, will provide the Issuer with an opinion of counsel to the effect that, although there is no direct authority, the Issuer will not be engaged in a trade or business within the United States for Federal income tax purposes (except to the extent the Issuer is delivered certain Equity Securities or other securities or consideration received in exchange for Defaulted Securities which may not be Acquired under items 7, 8 or 9 of the Eligibility Criteria, until such time as the Issuer is required to dispose of such securities pursuant to the Indenture, or transfer such securities to a subsidiary of the Issuer), and accordingly, the Issuer will not be subject to U.S. Federal income tax in the United States on its net income or to the branch profits tax. This opinion will be based on certain assumptions regarding the Issuer, including the Issuer's and the Collateral Manager's compliance with the Indenture, the Collateral Management Agreement and the Preferred Security Paying Agency Agreement. Prospective investors should be aware that an opinion of counsel is not binding on the IRS or the courts, and that no ruling will be sought from the IRS regarding the U.S. Federal income tax treatment of the Issuer. Accordingly, there can be no assurance that the IRS or a court will agree with the opinion of Schulte Roth & Zabel LLP. 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 Preferred Securities.

Although the Issuer is generally not intended to be subject to U.S. Federal income tax on its net income, certain income derived by the Issuer may be subject to withholding taxes imposed by the United States or other countries. It is not expected that the Issuer will derive material amounts of income that would be subject to United States withholding taxes.

### Tax Treatment of U.S. Holders of the Notes

*Status of the Notes.* Upon the issuance of the Notes, Schulte Roth & Zabel LLP will deliver an opinion that, although there is no direct authority, the Class A Notes, the Class B Notes and the Class C Notes will, and the Class D Notes, the Class E Notes, the Class F Notes and the Class G Notes should, be characterized as debt for U.S. Federal income tax purposes. Such opinion will assume compliance with the Indenture and other related documents. Investors should be aware that such opinion of counsel is not binding on the IRS or the courts. The Issuer will agree and, by their purchase of the Notes, holders and beneficial owners of the Notes will be deemed to have agreed, to treat the Notes as debt for U.S. Federal income tax purposes. See the discussion below under "Transfer and Other Reporting Requirements."

*Interest, Discount or Premium on the Notes.* In general, a U.S. holder of a debt instrument is required to include payments of qualified stated interest (i.e., interest which is unconditionally payable at least annually at a single fixed rate or at a floating rate that meets certain requirements) received thereon, in accordance with such holder's method of accounting, as ordinary interest income generally from sources outside the United States. If, however, the Issue Price of the debt instrument is less than the "Stated Redemption Price at Maturity" of such debt instrument by more than a de minimis amount, a U.S. holder will be considered to have purchased such debt instrument with original issue discount ("OID"). The "Stated Redemption Price at Maturity" is the sum of all payments to be received on the debt instrument other than payments of qualified stated interest. If a U.S. holder acquires a debt instrument with OID, then, regardless of such holder's method of accounting, the holder will be required to accrue OID on a constant yield basis and include such accruals in gross income without regard to the timing of actual payments.

It is not anticipated that the Class A Notes, the Class B Notes or the Class C Notes will be issued with OID. Therefore, U.S. holders of the Class A Notes, the Class B Notes and the Class C Notes will include stated interest thereon as ordinary interest income generally from sources outside the United States, in accordance with their method of accounting.

The Issuer intends to take the position that the likelihood of interest being deferred on the Class D Notes, the Class E Notes, the Class F Notes and the Class G Notes is not remote. Consequently, interest payable on the Class D Notes, the Class E Notes, the Class F Notes and the Class G 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 the Class D Notes, the Class E Notes, the Class F Notes or the Class G Notes will be required to accrue and include in gross income the sum of "daily portions" of total OID on such Notes as ordinary income generally from sources outside the United States, for each day during the taxable year on which the U.S. holder held such Notes, generally under a constant yield method, regardless of such U.S. holder's method of accounting and without regard to the timing of actual payments on such Notes. The Issuer intends to accrue OID attributable to the accrual of stated interest on such Notes over the entire term of such Notes with respect to the unpaid balance thereof and, in the absence of controlling authority, the remaining discount over the entire term of the non-call period, although other methods of accruing such discount may be accepted by the IRS or a court. In accordance with this method, U.S. holders of the Class D Notes, the Class E Notes, the Class F Notes and the Class G 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.

Because the Class D Notes, the Class E Notes, the Class F Notes and the Class G 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 the 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.

As a result of the complexity of the OID rules, each U.S. holder of a Class D Notes, a Class E Note, a Class F Note or a Class G Note should consult its own tax advisor regarding the impact of the OID rules on its investment in such Note.

Accrual of OID, if any, on the Notes may be subject to special rules that require use of a prepayment assumption and apply to debt instruments, the payments on which may be accelerated by reason of prepayments of other obligations securing those instruments.

In general, if the Issue Price of a Note exceeds the Stated Redemption Price at Maturity of such Note, a U.S. holder will be considered to have purchased such Note at a premium. In this event, a U.S. holder may elect to amortize the amount of such premium, using a constant rate, as an offset to interest income. It is not anticipated that the Notes will be issued at a premium.

*Sale, Exchange and Retirement of the Notes.* In general, a U.S. holder of a Note will have a basis in such Note equal to the cost of such Note to such holder increased by the amount of accrued OID, if any, and reduced by (i) any amortized premium applied to reduce, or allowed as a deduction against, interest on such Note and (ii) any payments other than payments of qualified stated interest on such Note. Upon a sale, exchange or retirement of a Note, a U.S. holder will generally recognize gain or loss equal to the difference between the amount realized on the sale, exchange or retirement (less any accrued interest, which would be taxable as such) and the holder's adjusted tax basis in such Note. Generally, such gain or loss will be long-term capital gain or loss if the U.S. holder held the Note for more than one year at the time of disposition. Gain recognized by a U.S. holder on the sale, exchange or retirement of a Note generally will be treated as from sources within the United States.

#### Tax Treatment of U.S. Holders of Preferred Securities

*Investment in a Passive Foreign Investment Company.* The Preferred Securities will constitute equity interests in the Issuer for U.S. Federal income tax purposes. In addition, the Issuer will constitute a PFIC. Accordingly, U.S. holders of Preferred Securities 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 QEF with respect to such holder. Generally, a QEF election may 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 Preferred Securities. 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 (arising from realized gains upon sales of securities), whether or not distributed, assuming that the Issuer does not constitute a CFC in which the shareholder is a "U.S. Shareholder" (as defined below), as discussed below. A U.S. shareholder 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, a prospective U.S. holder of Preferred Securities should note that (i) any net losses of the Issuer in a taxable year (which may include losses arising from credit event or floating amount event payments made by the Issuer under any Synthetic Security, which may be substantial) will not be available to such U.S. holder of Preferred Securities, (ii) the Issuer's current year income subject to inclusion under the QEF rules is not reduced by prior years' net losses and (iii) any tax benefit from such net losses is effectively available only when a U.S. shareholder or disposes of its shares (i.e., when such U.S. shareholder recognizes a capital loss, or reduced capital gain, on such shares). In certain cases in which a QEF does not distribute all of its earnings in a taxable year, U.S. shareholders 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 Preferred Securities are disposed of, subject to an interest charge on the deferred amount.

Prospective purchasers of Preferred Securities should be aware that it is expected that some of the Collateral Debt Securities may be purchased by the Issuer with original issue discount. As a result, the Issuer may recognize ordinary income from such instruments but the receipt of cash attributable to such income may be deferred, perhaps for a substantial period of time. Thus, absent an election to defer payment of taxes, U.S. holders of Preferred Securities that make a QEF election may owe tax on amounts of "phantom" income. Moreover, some or all of the income received by the Issuer will be used to pay principal on the Notes and will not be available for distribution to holders of the Preferred Securities.

Prospective purchasers of the Class B Preferred Securities should note that, based on the priority given to the Class A Preferred Securities in respect of distributions, the cash pertaining to income allocable to a U.S. holder of Class B Preferred Securities that makes a QEF election could instead be distributed to reduce the aggregate principal amount of the Class A Preferred Securities. This could result in such U.S. holder of Class B Preferred Securities paying taxes on material amounts of phantom income. In addition, proposed U.S. Treasury Regulations provide for certain rules applicable to QEF elections made with respect to preferred stock (for U.S. Federal income tax purposes) which, if such regulations were to apply, could modify the general treatment of a U.S. holder that makes a QEF election with respect to the Preferred Securities as described herein. U.S. holders are strongly urged to consult their own tax advisors with respect to these matters.

The Issuer will provide all information that a U.S. holder of Preferred Securities 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 the Issuer invests in the equity of other PFICs, a U.S. holder of Preferred Securities would have to make a separate QEF election with respect to any such other PFIC. In such case, the Issuer will provide, to the extent it receives, the information needed for U.S. holders to make such a QEF election. Losses associated with such investments are subject to material limitations. U.S. holders should consult their own tax advisors with respect to the tax consequences of such a situation.

If a U.S. holder of Preferred Securities does not make a timely QEF election and the PFIC rules are otherwise applicable, a U.S. holder (other than certain U.S. holders that are subject to the rules relating to a CFC described below) would be required to report any gain on disposition of any Preferred Securities 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 Preferred Securities 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 Preferred Securities 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 Preferred Security 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 Preferred Security). In addition, a stepped-up basis in the Preferred Securities upon the death of an individual U.S. holder may not be available.

The Synthetic Security Counterparty (under the Synthetic Securities entered into on the Closing Date) and the Issuer have agreed to treat each credit default swap as a series of annually settled contingent put options issued to the swap counterparty by the Issuer. The Issuer will treat the total return swaps as

notional principal contracts. However, because of the Issuer's and the Synthetic Security Counterparty's rights under the credit default swaps and the total return swaps, it is possible that the IRS could recharacterize the credit default swaps and the total return swaps as other than the Issuer's treatment of the same, including treating the Issuer as purchasing a credit linked note issued by such Synthetic Security Counterparty (or other applicable counterparty, if any). 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 Preferred Securities. Prospective U.S. holders of Preferred Securities should consult with their tax advisors as to the consequences of such possible recharacterization.

**U.S. HOLDERS OF PREFERRED SECURITIES SHOULD CONSIDER CAREFULLY WHETHER TO MAKE A QEF ELECTION WITH RESPECT TO THE PREFERRED SECURITIES 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 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 Preferred Securities are voting securities and that U.S. holders possessing 10% or more of the combined voting power of the Preferred Securities are U.S. Shareholders for purposes of the CFC rules. If this argument were successful and more than 50% of such interests were held by such U.S. Shareholders, the Issuer would be treated as a CFC.

If the Issuer should constitute a CFC, each U.S. Shareholder of the Issuer would be treated, subject to certain exceptions, as receiving ordinary income at the end of the taxable year of the Issuer in an amount equal to that person's *pro rata* share of the "subpart F income" and certain other income of the Issuer. Among other items, and subject to certain exceptions, "subpart F income" includes dividends, interest, annuities, gains from the sale of shares and securities, certain gains from commodities transactions, certain types of insurance income, income from certain notional principal contracts (*e.g.*, swaps and caps) and income from certain transactions with related parties. It is likely that predominantly all of the Issuer's income would be subpart F income. If more than 70% of the Issuer's gross income is subpart F income in any year, 100% of its income in such year would be treated as subpart F income. Prospective purchasers of the Preferred Securities should be aware that such income of the Issuer may significantly exceed the Issuer's distributions on the Preferred Securities for one or more periods, and that a U.S. Shareholder may owe tax on significant amounts of "phantom income."

If the Issuer should be treated as a CFC, a U.S. Shareholder of the Issuer would be taxable on the subpart F income of the Issuer under the rules applicable to a CFC described in the preceding paragraph and not under the PFIC rules previously described. As a result, to the extent subpart F income of the Issuer includes net capital gains, such gains will be treated as ordinary income of the U.S. Shareholder under the CFC rules, notwithstanding the fact that the character of such gains generally would otherwise be preserved under the PFIC rules if a QEF election had been made. Also, the PFIC rule permitting the deferral of tax on undistributed earnings would not apply.

*Distributions on Preferred Securities.* The treatment of actual distributions of cash on the Preferred Securities, in very general terms, will vary depending on whether a U.S. holder has made a timely QEF election as described above. See "—Investment in a Passive Foreign Investment Company." If a timely QEF election has been made, distributions should be allocated first to amounts previously



taxed pursuant to the QEF election (or pursuant to the CFC rules, if applicable) and to this extent would not be taxable to U.S. holders. Distributions in excess of such previously taxed amounts and any remaining amounts of earnings and profits will generally be treated first as a nontaxable return of capital to the extent of the holders tax basis in the Preferred Securities 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 Preferred Securities may constitute excess distributions, taxable as previously described. See "—Investment in a Passive Foreign Investment Company."

Distributions on the Preferred Securities will not constitute "qualified dividend income" eligible, in the case of individuals, for a reduced rate of tax.

*Sale, Redemption or Other Disposition of Preferred Securities.* In general, a U.S. holder of a Preferred Security will recognize gain or loss upon the sale or other disposition of a Preferred Security equal to the difference between the amount realized and such holder's adjusted tax basis in the Preferred Security. 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 Preferred Securities 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 Preferred Security. Such basis will be increased by amounts taxable to such holder by virtue of a QEF election or the CFC rules and decreased by actual distributions from the Issuer that are deemed to consist of such previously taxed amounts or are treated as nontaxable returns of capital (as described above).

If a U.S. holder does not make a timely QEF election as described above, any gain realized on the sale or other disposition of a Preferred Security 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 Preferred Securities will be treated as ordinary income to the extent of such U.S. Shareholder's share of the current and accumulated earnings and profits of the Issuer. In this respect, earnings and profits would not include any amounts previously taxed pursuant to a timely QEF election or pursuant to the CFC rules.

*Transfer and Other Reporting Requirements.* U.S. holders of the Preferred Securities will generally be required to report to the IRS on IRS Form 926 certain information relating to such holders' purchase of the Preferred Securities 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 Preferred Securities subject to a maximum penalty equal to \$100,000 (except in cases of intentional disregard).** U.S. holders of Preferred Securities are urged to consult with their own tax advisors regarding these reporting requirements and any other reporting requirements, such as an IRS Form 5471, which may apply to such holders.

#### *Tax-Exempt Investors.*

Special considerations apply to pension plans and other investors ("Tax-Exempt Investors") that are subject to tax only on their unrelated business taxable income ("UBTI"). A Tax-Exempt Investor's income from an investment in the Securities generally will not be treated as resulting in UBTI, so long as such investor's acquisition of Securities is not debt-financed. A Tax-Exempt Investor that owns more

than 50% of the equity of the Issuer and also owns Securities treated as debt should consider the application of the special UBTI rules for interest received from controlled entities. Tax-Exempt Investors should consult their own tax advisors regarding an investment in the Securities.

#### *Tax Treatment of Non-U.S. Holders of Notes or Preferred Securities*

Subject to the discussion below regarding "backup withholding," a non-U.S. holder of the 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, 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 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 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 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 IRS Form W-8BEN, IRS Form W-8IMY or other applicable form, together with all appropriate attachments, signed under penalties of perjury, identifying the non-U.S. holder and stating that the non-U.S. holder is not a United States person will not be subject to the IRS reporting requirements relating to U.S. withholding and backup withholding. In addition, IRS Form W-8BEN or other applicable form will be required from the beneficial owners of interests in a non-U.S. holder that is treated as a partnership (or as a trust of certain types) for U.S. Federal income tax purposes. Each non-U.S. holder agrees that by such holder's or beneficial owner's acceptance of an Security or an interest therein that such holder or beneficial owner will provide (or cause to be provided) to the Issuer (or the Trustee on behalf of the Issuer) or other applicable withholding agent a properly completed IRS Form W-8BEN, IRS Form W-8IMY or other applicable form signed under penalties of perjury.

The payment of the proceeds on the disposition of a 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 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 a 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 a Security by a non-U.S. holder to or through a non-U.S. office of a U.S. broker or a U.S. Related Person generally will not be subject to backup withholding but will be subject to information reporting unless the holder certifies its status as a non-U.S. holder under penalties of perjury or the broker has certain documentary

evidence in its files as to the non-U.S. holder's foreign status and the broker has no actual knowledge to the contrary.

For this purpose, a "U.S. Related Person" includes (i) a CFC for U.S. Federal income tax purposes, (ii) a foreign person 50% or more of whose gross income from all sources for the three-year period ending with the close of its taxable year preceding the payment (or for such part of the period that the broker has been in existence) is derived from activities that are effectively connected with the conduct of a U.S. trade or business or (iii) a foreign partnership if at any time during its tax year one or more of its partners are United States persons who, in the aggregate, hold more than 50% of the income or capital interest of the partnership or if, at any time during its taxable year, the partnership is engaged in the conduct of a U.S. trade or business.

Backup withholding is not an additional tax and may be refunded (or credited against the holder's U.S. Federal income tax liability, if any); *provided* that certain required information is furnished. The information reporting requirements may apply regardless of whether withholding is required. Copies of the information returns reporting such interest and withholding also may be made available to the tax authorities in the country in which a non-U.S. holder is a resident under the provisions of an applicable income tax treaty or agreement.

#### Tax Shelter Reporting Requirements

Pursuant to Treasury Regulations directed at tax shelter activity, taxpayers are required to disclose to the IRS certain information on IRS Form 8886 if they participate in a "reportable transaction." A transaction may be a "reportable transaction" based upon any of several indicia with respect to a holder, including the recognition of a loss. In addition, a U.S. holder of 10% of the Preferred Securities could be subject to these disclosure requirements if the Issuer engages in any "reportable transaction." A significant penalty will be imposed on taxpayers who participate in a "reportable transaction" and fail to make the required disclosure in tax returns and statements due after October 22, 2004. The penalty is generally U.S.\$10,000 for natural persons and U.S.\$50,000 for other persons (increased to U.S.\$100,000 and U.S.\$200,000, respectively, if the reportable transaction is a "listed" transaction). Investors should consult their own tax advisors concerning any possible disclosure obligation with respect to their investment in the Issuer and the penalty discussed above.

#### **Cayman Islands Tax Considerations**

For purposes of Cayman Islands law, all Classes of Notes will be characterized as debt of the Issuer.

The following comments are based on advice of Walkers received by the Issuer regarding current law and practice in the Cayman Islands and are intended to assist investors in the Notes or the Preferred Securities. Investors should consult their professional advisors on the possible tax consequences of such investors subscribing for, purchasing, holding, selling or redeeming Notes or Preferred Securities under the laws of such investors' countries of citizenship, residence, ordinary residence or domicile.

The following is a general summary of Cayman Islands taxation in relation to the Notes and the Offered Securities.

Under existing Cayman Islands laws:

(a) payments in respect of the Notes or the Preferred Securities 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

Preferred Security, and gains derived from the sale of Notes or Preferred Securities will not be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax; and

(b) the holder of any Note (or the legal personal representative of such holder), if such Note is brought into the Cayman Islands, may in certain circumstances be liable to pay stamp duty imposed under the laws of the Cayman Islands in respect of such Note. In addition, an instrument transferring title to a Note, if brought to or executed in the Cayman Islands, would be subject to Cayman Islands stamp duty. No stamp duties or similar taxes or charges are payable under the laws of the Cayman Islands in respect of the execution and issue of the Preferred Security certificates or in respect of the execution and delivery of an instrument of transfer of Preferred Securities.

The Issuer has been incorporated under the laws of the Cayman Islands as an exempted company and, as such, has obtained an undertaking from the Governor in Cabinet of the Cayman Islands substantially in the following form:

**"TAX CONCESSIONS LAW  
(1999 REVISION)  
UNDERTAKING AS TO TAX CONCESSIONS**

In accordance with the provisions of Section 6 of the Tax Concessions Law (1999 Revision) the Governor in Cabinet undertakes with:

**Octans I 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 THIRTY years from the 4th day of July 2006.

**GOVERNOR IN CABINET"**

The Cayman Islands does not have a double tax treaty arrangement with the U.S. or any other country.

**THE PRECEDING DISCUSSION IS ONLY A SUMMARY OF CERTAIN OF THE TAX IMPLICATIONS OF AN INVESTMENT IN THE NOTES OR THE PREFERRED SECURITIES. 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.**

## ERISA CONSIDERATIONS

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

The United States Employee Retirement Income Security Act of 1974, as amended ("ERISA"), imposes certain duties on persons who are fiduciaries of employee benefit plans (as defined in Section 3(3) of ERISA) subject to Title I of ERISA ("ERISA Plans") and of entities whose underlying assets include assets of ERISA Plans by reason of an ERISA Plan's investment in such entities. These duties include investment prudence and diversification and the requirement that an ERISA Plan's investments be made in accordance with the documents governing the ERISA Plan. The prudence of a particular investment must be determined by the responsible fiduciary of an ERISA Plan by taking into account the ERISA Plan's particular circumstances and liquidity needs and all of the facts and circumstances of the investment, including the availability of a public market for the investment. In addition, certain U.S. Federal, state and local laws impose similar duties on fiduciaries of governmental and/or church plans that are not subject to ERISA.

Any fiduciary of an ERISA Plan, of an entity whose assets are treated as "plan assets" of ERISA Plans by reason of an ERISA Plan's investment in such entity, or of a governmental or church plan that is subject to fiduciary standards similar to those of ERISA ("plan fiduciary"), that proposes to cause such a plan or entity to purchase Securities should determine whether, under the general fiduciary standards of ERISA or other applicable law, an investment in the Securities is appropriate for such plan or entity. In determining whether a particular investment is appropriate for an ERISA Plan, U.S. Department of Labor regulations provide that the fiduciaries of an ERISA Plan must give appropriate consideration to, among other things, the role that the investment plays in the ERISA Plan's portfolio, taking into consideration whether the investment is designed reasonably to further the ERISA Plan's purposes, an examination of the risk and return factors, the portfolio's composition with regard to diversification, the liquidity and current return of the total portfolio relative to the anticipated cash flow needs of the ERISA Plan and the projected return of the total portfolio relative to the ERISA Plan's funding objectives. Before investing the assets of an ERISA Plan in Securities, a fiduciary should determine whether such an investment is consistent with the foregoing regulations and its fiduciary responsibilities, including any specific restrictions to which such fiduciary may be subject.

Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions ("prohibited transactions") involving the assets of ERISA Plans, plans described in Section 4975(e)(1) of the Code that are subject to the prohibited transaction provisions of Section 4975 of the Code or entities deemed to hold assets of the aforementioned plans (together with ERISA Plans, "Plans") and certain persons (referred to as "Parties In Interest" in ERISA and as "Disqualified Persons" in Section 4975 of the Code) having certain relationships to such Plans. 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 Credit Default Swap Counterparty, each Hedge Counterparty, the Placement Agent and/or the Initial Purchaser as a result of its own activities or because of the activities of an affiliate, may be considered a Party In Interest or a Disqualified Person with respect to Plans. Accordingly, prohibited transactions within the meaning of Section 406 of ERISA and Section 4975 of the Code may arise if Securities are acquired by a Plan with respect to which any of the Issuer, the Co-Issuer, the Trustee, the Collateral Manager, the Placement Agent, the Initial Purchaser, a Hedge Counterparty, the obligors on the Collateral Debt Securities or any of their respective affiliates is a Party In Interest or Disqualified Person. In addition, if a Party In Interest or Disqualified Person with respect to a Plan owns or acquires a beneficial interest in the Issuer or the Co-Issuer, the acquisition or holding of Notes by or on behalf of the Plan could be considered to constitute an indirect prohibited transaction under ERISA or Section 4975 of the Code. Moreover, the acquisition or holding of Securities or other indebtedness issued by the Issuer or the Co-Issuer by or on behalf of a Party In Interest or Disqualified Person with respect to a Plan that owns or acquires a beneficial interest in the Issuer or the Co-Issuer, as the case may be, also could give rise to an indirect prohibited transaction under ERISA or Section 4975 of the Code. Certain statutory or administrative exemptions from the prohibited transaction rules could be applicable, however, depending in part upon the type of plan fiduciary making the decision to acquire Securities and the circumstances under which such decision is made. Included among these exemptions are Section 408(b)(17) of ERISA, regarding transactions with service providers to Benefit Plan Investors; PTE 90-1, regarding investments by insurance company pooled separate accounts; PTE 91-38, regarding investments by bank collective investment funds; PTE 84-14, regarding transactions effected by a "qualified professional asset manager"; PTE 96-23, regarding investments by certain in house asset managers; and PTE 95-60, regarding investments by insurance company general accounts. Even if the conditions specified in one or more of these exemptions are met, the scope of the relief provided by these exemptions might or might not cover all acts which might be construed as prohibited transactions under ERISA or Section 4975 of the Code. If a purchase of Securities were to be a non-exempt prohibited transaction under ERISA or Section 4975 of the Code, the purchase might have to be rescinded. Accordingly, each Plan, and each person investing Plan assets, that purchases an Security will be required or deemed to represent and warrant that its purchase of the Security will not constitute a non-exempt prohibited transaction in violation of Section 406 of ERISA or Section 4975 of the Code.

Governmental plans and certain church plans, while not subject to the fiduciary responsibility provisions of ERISA or the provisions of Section 4975 of the Code, may nevertheless be subject to local, state or other Federal laws that are similar to the foregoing provisions of ERISA and the Code (a "Similar Law"). Accordingly, such plans will also be required or deemed to represent and warrant that the purchase of an Security will not constitute a non-exempt violation of Similar Law.

The United States Department of Labor, the government agency primarily responsible for administering the ERISA fiduciary rules and the prohibited transaction rules under ERISA and Section 4975 of the Code, has issued a regulation (the "Plan Asset Regulation") which, as modified by Section 3(42) of ERISA, sets forth the rule that if ERISA Plans and/or Individual Retirement Accounts acquire "equity interests" in an entity, then, under certain specified circumstances, the investment manager of that entity and entities with certain specified relationships to an ERISA Plan and/or Individual Retirement Account are required to "look through" the entity, including investment vehicles such as the Co-Issuers, and treat as an "asset" of the ERISA Plan or Individual Retirement Account an undivided interest in each underlying investment made by such entity. Under Section 3(42) of ERISA, if Benefit Plan Investors own less than twenty-five percent (or such greater percentage as may be specified in regulations promulgated by the U.S. Department of Labor) of the value of any class of equity interest in the entity (the "25% Threshold"), then the "look through" rule will not apply to such entity. "Benefit Plan Investors" are defined in Section 3(42) of ERISA to include (1) any employee benefit "plan" (as defined in Section 3(3) of ERISA), that is subject to the provisions of Title I of ERISA, (2) any "plan" that is

subject to the prohibited transaction provisions of Section 4975 of the Code, and (3) any entity whose assets are treated as "plan assets" under ERISA by reason of any of the aforementioned plan's investment in the entity. If Benefit Plan Investors, after the most recent acquisition of any equity interest in the entity, own 25% (or such greater percentage as may be specified in regulations promulgated by the U.S. Department of Labor) or more of the value of any class of equity interests in the entity (excluding the value of any interests held by certain persons, other than Benefit Plan Investors, having discretionary authority or control over the assets of such entity or providing investment advice with respect to the assets of such entity for a fee, direct or indirect, or any affiliates of such persons (any such person, a "Controlling Person")), then the look through rule shall apply.

There is little pertinent authority in this area. Although the issue is not free from doubt, on the date of issuance, it is not anticipated that the Class A Notes, the Class B Notes or the Class C Notes will constitute "equity interests" (for purposes of the Plan Asset Regulation) in the Co-Issuers. Based primarily on the investment grade rating of the Class D Notes, the Class E Notes, the Class F Notes and the Class G Notes, the unconditional obligation of the Co-Issuers to repay principal and accrued interest by a fixed maturity date and the creditors remedies available to holders of the Class D Notes, the Class E Notes, the Class F Notes and the Class G Notes on the date of issuance, it is anticipated that the Class D Notes, the Class E Notes, the Class F Notes and the Class G Notes should not constitute "equity interests" (for purposes of the Plan Asset Regulation) in the Co-Issuers, despite their subordinate provision in the capital structure of the Issuers. Accordingly, no measures (such as those described below with respect to the Preferred Securities) will be taken to restrict investment in each such Class of Notes by Benefit Plan Investors. However, there can be no assurance that each such Class of Notes would be characterized by the United States Department of Labor or others as indebtedness and not as equity interests on the date of issuance or at any given time thereafter. In addition, the status of any Class of Notes as indebtedness could be affected, subsequent to their issuance, by certain changes in the structure or financial condition of the Co-Issuers.

It is likely that each class of the Preferred Securities will constitute "equity interests" in the Issuer. Accordingly, it is intended that the ownership interests in each class of the Preferred Securities that are held by Benefit Plan Investors will be maintained at a level below the 25% Threshold (excluding the Preferred Securities held by Controlling Persons) by prohibiting the transfer of Regulation S Preferred Securities to Benefit Plan Investors or Controlling Persons and limiting the transfer of Restricted Definitive Preferred Securities to Benefit Plan Investors or Controlling Persons. No interest in a Preferred Security sold in reliance on Regulation S may be sold to a Benefit Plan Investor or a Controlling Person. No interest in a Regulation S Preferred Security may be transferred to a Benefit Plan Investor or a Controlling Person after the Closing Date. Each Original Purchaser and each transferee of an interest in a Regulation S Global Preferred Security will be required to certify (or in certain circumstances will be deemed to represent and warrant) that it is not a Benefit Plan Investor or a Controlling Person and that it will not become a Benefit Plan Investor or a Controlling Person while it holds such Regulation S Global Preferred Security or an interest therein. Each Original Purchaser and each transferee of Restricted Definitive Preferred Securities will be required to certify in the Investor Application Form pursuant to which such Preferred Securities are purchased or in the applicable transfer certificate whether or not it is a Benefit Plan Investor or a Controlling Person. No purchase or transfer of a Restricted Definitive Preferred Security to a Benefit Plan Investor or a Controlling Person will be permitted unless, after giving effect to such purchase or transfer, the 25% Threshold (excluding the Preferred Securities held by Controlling Persons) will be satisfied with respect to the class of the Preferred Security being acquired. Any subsequent transferee that acquires Restricted Definitive Preferred Securities will be required to represent as to similar matters in the transfer certificate delivered to the Issuer and the Preferred Security Registrar in connection with such transfer. In particular, each owner of an interest in a Restricted Definitive Preferred Security will be required to execute and deliver to the Issuer and the Preferred Security Registrar a transfer certificate in the form attached as an exhibit to the Preferred Security Paying Agency

Agreement to the effect that such owner will, prior to any sale, pledge or other transfer by it of any Definitive Preferred Security (or any interest therein), obtain from the transferee a duly executed transferee certificate in the form attached to the Preferred Security Paying Agency Agreement, and such other certificates and other information as the Issuer or the Preferred Security Paying Agent may reasonably require to confirm that the proposed transfer substantially complies with the transfer restrictions contained in the Preferred Security Documents.

If for any reason the assets of the Co-Issuers are treated as "plan assets" of a Plan because one or more such Plans is an owner of Preferred Securities or other "equity interests" of the Issuer, certain transactions that either of the Co-Issuers might enter into, or may have entered into, in the ordinary course of 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 Co-Issuers are treated as "plan assets" of a Plan, 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 Co-Issuers were treated as "plan assets," there are several provisions of ERISA that could be implicated if an ERISA Plan or Individual Retirement Account were to acquire and hold Preferred Securities either directly or by investing in an entity whose assets are treated as assets of the ERISA Plan or Individual Retirement Account. It is not clear that Section 403(a) of ERISA, which generally requires that all of the assets of an ERISA Plan be held in trust and limits delegation of investment management responsibilities by fiduciaries of ERISA Plans, would be satisfied. It is also not clear whether Section 404(b) of ERISA, which generally provides that no fiduciary may maintain the indicia of ownership of any assets of an ERISA 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 any of the Notes are acquired by a Plan with respect to which a holder of a Preferred Security 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 such Notes were subject to one or more statutory, regulatory, or administrative exemptions from the prohibited transaction rules of ERISA and Section 4975 of the Code. In this regard, each Plan, and each Person investing Plan assets, that purchases a Note will be required to certify (or in certain cases circumstances deemed to represent and warrant) that its purchase of the 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).

The sale of any Security to a Plan is in no respect a representation by the Co-Issuers, the Placement Agent, the Initial Purchaser, the Trustee, the Collateral Manager or any of their affiliates that such an investment meets all relevant legal requirements with respect to investments by Plans generally or any particular Plan, or that such an investment is appropriate for a Plan generally or any particular Plan.

EACH ORIGINAL PURCHASER AND EACH TRANSFEREE OF A NOTE OR ANY 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 SUCH NOTE OR ANY INTEREST THEREIN WILL NOT BE), AND IS NOT (AND FOR SO LONG AS IT HOLDS ANY SUCH 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 THE PROVISIONS OF TITLE I OF ERISA, A "PLAN," THAT IS SUBJECT TO THE PROHIBITED TRANSACTION PROVISIONS OF SECTION 4975 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), AN ENTITY



WHOSE ASSETS ARE TREATED AS "PLAN ASSETS" OF ANY SUCH EMPLOYEE BENEFIT PLAN OR PLAN PURSUANT TO ERISA, 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 REGULATION S PREFERRED SECURITY WILL BE REQUIRED TO CERTIFY (OR IN CERTAIN CIRCUMSTANCES DEEMED TO REPRESENT AND WARRANT) THAT IT IS NOT A BENEFIT PLAN INVESTOR OR CONTROLLING PERSON. EACH ORIGINAL PURCHASER AND EACH TRANSFEREE OF A RESTRICTED DEFINITIVE PREFERRED SECURITY OR AN INTEREST THEREIN WILL BE REQUIRED TO CERTIFY WHETHER OR NOT IT IS A BENEFIT PLAN INVESTOR OR A CONTROLLING PERSON (EACH, AS DEFINED BELOW). NO PURCHASE OR TRANSFER OF A RESTRICTED DEFINITIVE PREFERRED SECURITY WILL BE EFFECTIVE, AND NEITHER THE ISSUER NOR THE PREFERRED SECURITY REGISTRAR WILL RECOGNIZE ANY SUCH PURCHASE OR TRANSFER UNLESS, AFTER GIVING EFFECT TO SUCH TRANSFER, LESS THAN 25% (OR SUCH GREATER PERCENTAGE AS MAY BE SPECIFIED IN REGULATIONS PROMULGATED BY THE U.S. DEPARTMENT OF LABOR) OF THE CLASS OF SUCH PREFERRED SECURITIES (DISREGARDING THE PREFERRED SECURITIES HELD BY PERSONS OTHER THAN BENEFIT PLAN INVESTORS WHO HAVE DISCRETIONARY AUTHORITY OR CONTROL WITH RESPECT TO THE ASSETS OF THE ISSUER, OR WHO PROVIDE INVESTMENT ADVICE FOR A FEE, DIRECT OR INDIRECT, WITH RESPECT TO SUCH ASSETS, OR ANY AFFILIATES OF SUCH PERSONS (EACH, A "CONTROLLING PERSON")) WOULD BE HELD BY BENEFIT PLAN INVESTORS. NO REGULATION S GLOBAL PREFERRED SECURITY OR AN INTEREST THEREIN MAY BE ACQUIRED BY OR TRANSFERRED TO A BENEFIT PLAN INVESTOR OR A CONTROLLING PERSON AND EACH SUCH ACQUIRER OR TRANSFEREE WILL BE DEEMED TO REPRESENT OR WARRANT THAT IT IS NOT AND THAT IT SHALL NOT BECOME A BENEFIT PLAN INVESTOR OR A CONTROLLING PERSON WHILE IT SHALL HOLD SUCH REGULATION S GLOBAL NOTE OR INTEREST THEREIN.

AN ORIGINAL PURCHASER AND EACH TRANSFEREE OF A RESTRICTED DEFINITIVE PREFERRED SECURITY THAT IS A BENEFIT PLAN INVESTOR WILL BE REQUIRED TO CERTIFY THAT ITS ACQUISITION AND HOLDING OF SUCH PREFERRED SECURITIES 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). A "BENEFIT PLAN INVESTOR" INCLUDES AN "EMPLOYEE BENEFIT PLAN" (AS DEFINED IN SECTION 3(3) OF ERISA), THAT SUBJECT TO THE PROVISIONS OF TITLE I OF ERISA, A "PLAN" THAT IS SUBJECT TO THE PROHIBITED TRANSACTION PROVISIONS OF SECTION 4975 OF THE CODE, ANY ENTITY WHOSE ASSETS ARE TREATED AS "PLAN ASSETS" UNDER ERISA BY REASON OF AN EMPLOYEE BENEFIT PLAN'S OR PLAN'S INVESTMENT IN THE ENTITY, AND AN INSURANCE COMPANY GENERAL ACCOUNT ANY OF THE UNDERLYING ASSETS OF WHICH CONSTITUTE "PLAN ASSETS" UNDER SECTION 401(c) OF ERISA (AND A WHOLLY OWNED SUBSIDIARY OF SUCH GENERAL ACCOUNT).

ANY PLAN FIDUCIARY THAT PROPOSES TO CAUSE A PLAN TO PURCHASE SECURITIES SHOULD CONSULT WITH ITS OWN LEGAL AND TAX ADVISORS WITH RESPECT TO THE POTENTIAL APPLICABILITY OF ERISA, THE CODE, AND SIMILAR LAW TO SUCH INVESTMENTS, THE CONSEQUENCES OF SUCH AN INVESTMENT UNDER ERISA, THE CODE, AND SIMILAR LAW AND THE ABILITY TO MAKE THE REPRESENTATIONS DESCRIBED ABOVE. MOREOVER, EACH PLAN FIDUCIARY SHOULD DETERMINE WHETHER, UNDER THE GENERAL FIDUCIARY STANDARDS OF ERISA, OR SIMILAR LAW, AN INVESTMENT IN THE SECURITIES IS APPROPRIATE FOR THE PLAN, TAKING INTO ACCOUNT THE OVERALL INVESTMENT POLICY OF THE PLAN AND THE COMPOSITION OF THE PLAN'S INVESTMENT PORTFOLIO.

It should be noted that an insurance company's general account (and a wholly owned subsidiary of such a general account) may be deemed to include assets of ERISA Plans under certain circumstances, e.g., where an ERISA Plan purchases an annuity contract issued by such an insurance company, based on the reasoning of the United States Supreme Court in *John Hancock Mutual Life Ins. Co. v. Harris Trust and Savings Bank*, 510 U.S. 86 (1993). An insurance company considering the purchase of Securities with assets of its general account (or the assets of a wholly owned subsidiary of such general account) should consider such purchase and the insurance company's ability to make the representations described above in light of *John Hancock Mutual Life Ins. Co. v. Harris Trust and Savings Bank*, Section 401(c) of ERISA and 29 C.F.R. §2550.401c-1.

The discussion of ERISA and Section 4975 of the Code contained in this Offering Circular is, of necessity, general, and does not purport to be complete. Moreover, the provisions of ERISA and Section 4975 of the Code are subject to extensive and continuing administrative and judicial interpretation and review. Therefore, the matters discussed above may be affected by future regulations, rulings and court decisions, some of which may have retroactive application and effect.

## PLAN OF DISTRIBUTION

The Co-Issuers and the Initial Purchaser and Cohen & Company Securities, LLC, in its capacity as placement agent (the "Placement Agent"), will enter into a Note Purchase Agreement (the "Purchase Agreement") relating to the purchase and sale of the Notes to be delivered on the Closing Date. The Notes will be offered by the Initial Purchaser and the Placement Agent to prospective investors from time to time in individually negotiated transactions at varying prices to be determined at the time of sale. The Initial Purchaser and the Placement Agent reserve the right to withdraw, cancel, or modify such offer and to reject orders in whole or in part. The Initial Purchaser's and the Placement Agent's responsibility is limited to a "reasonable efforts" basis in placing the Notes, with no understanding, express or implied, on the part of the Initial Purchaser or the Placement Agent of a commitment by the Initial Purchaser or the Placement Agent, whether as principal or agent, to purchase or place the Notes. 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 or the Placement Agent, as applicable, may be required to make in respect thereof. The 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 Preferred Security will be required to execute and deliver an Investor Application Form in form and substance satisfactory to the Issuer.

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

The Securities will be sold (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) in the case of the Preferred Securities, Accredited Investors and (b) outside the United States to persons who are not U.S. persons (as defined in Regulation S) in offshore transactions in reliance on Regulation S ("Regulation S") under the Securities Act and, in each case, in accordance with applicable laws.

## CERTAIN SELLING RESTRICTIONS

### United States

The Securities have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons except pursuant to an exemption from the registration requirements under the Securities Act.

(1) In the Purchase Agreement, the Initial Purchaser and the Placement Agent will represent and agree that it has not offered or sold Notes and will not offer or sell Notes except to persons who are not U.S. Persons in accordance with Rule 903 of Regulation S or as provided in paragraph (2) below. Accordingly, the Initial Purchaser and the Placement Agent will represent and agree that neither it, its affiliates (if any) nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to Notes, 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 and the Placement Agent will agree that it will not, acting either as principal or agent, offer or sell any Notes in the United States other than Notes in registered form bearing a restrictive legend thereon, and it will not, acting either as principal or agent, offer, sell, reoffer or resell any of such Notes (or approve the resale of any of such Notes):

(a) except (1) inside the United States through a U.S. broker dealer that is registered under the Exchange Act to investors each of which the Initial Purchaser and the Placement Agent reasonably believes is a Qualified Institutional Buyer that is also a Qualified Purchaser or (2) otherwise in accordance with the restrictions on transfer set forth in such Notes, the Purchase Agreement and this Offering Circular; or

(b) by means of any form of general solicitation or general advertisement, including but not limited to (1) any advertisement, article, notice or other communication published in any newspaper, magazine or similar media or broadcast over television or radio and (2) any seminar or meeting whose attendees have been advised by any general solicitation or general advertising.

Prior to the sale of any Notes in registered form bearing a restrictive legend thereon, the Initial Purchaser and the Placement Agent shall have provided each offeree that is a U.S. Person with a copy of the Offering Circular in the form the Issuer, the Placement Agent and the Initial Purchaser shall have agreed most recently shall be used for offers and sales in the United States.

### United Kingdom

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

(1) it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 with respect to anything done by it in relation to the Securities in, from or otherwise involving the United Kingdom; and

(2) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000) received by it in connection with the issue or sale of any Securities in circumstances in which Section 21(1) of said Act does not apply to the Co-Issuers.

## **Cayman Islands**

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 Notes.

## **Hong Kong**

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

(1) that it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, the Notes other than to persons whose ordinary business it is to buy or sell shares of debentures (whether as principal or agent) or in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap.32) of Hong Kong (the "Companies Ordinance"); and

(2) unless it is a person permitted to do so under the securities laws of Hong Kong, it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purpose of issue, in Hong Kong, any advertisement, invitation or document relating to the Notes, other than with respect to Notes intended to be disposed of to persons outside Hong Kong or to be disposed of in Hong Kong only to persons whose business involves the acquisition, disposal, or holdings of securities, whether as principal or agent.

## **General**

No action has been or will be taken in any jurisdiction that would permit a public offering of the Securities or the possession, circulation or distribution of the preliminary offering circular with respect to the Offering, this Offering Circular or any other material relating to the Issuer or the Securities in any country or jurisdiction where action for that purpose is required. Accordingly, the Securities may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material or advertisements in connection with the Securities may be distributed or published, in or from any country or jurisdiction, except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

Purchasers of the Securities may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the purchase price.

Purchasers of the Securities will be required, as a condition to payment of amounts on the Securities without the imposition of withholding tax, to provide certain certifications with respect to any applicable taxes or reporting requirements of the United States or the Cayman Islands.

## 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 Preferred Securities.**

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, the Placement Agent and the Initial Purchaser, and each Original Purchaser of Preferred Securities (or any beneficial interest therein) will be required in an Investor Application Form to acknowledge, represent and warrant to and agree with the Issuer as follows:

(1) *No Governmental Approval.* The purchaser understands that the Securities have not been approved or disapproved by the SEC or any other governmental authority or agency of any jurisdiction, nor has the SEC or any other governmental authority or agency passed upon the accuracy or adequacy of this Offering Circular. The purchaser further understands that any representation to the contrary is a criminal offense.

(2) *Certification Upon Transfer.* Each purchaser of a Note (if required by the Indenture) and each purchaser of Preferred Securities will, prior to any sale, pledge or other transfer by it of any such Security (or any interest therein), obtain from the transferee and deliver to the Issuer and the Note Registrar (in the case of a Note) or the Preferred Security Registrar (in the case of a Preferred Security) a duly executed transferee certificate in the form of the relevant exhibit attached to the Indenture or the Preferred Security 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 Preferred Security Registrar (in the case of the Preferred Securities) may reasonably require to confirm that the proposed transfer complies with the transfer restrictions contained in this Offering Circular and the Indenture or the Preferred Security Documents.

(3) *Minimum Denominations.* The purchaser agrees that no Security (or any interest therein) may be sold, pledged or otherwise transferred in a denomination of less than the applicable minimum denomination set forth in the Indenture (in the case of the Notes) or the Preferred Security Documents (in the case of the Preferred Securities).

(4) *Securities Law Limitations on Resale.* The purchaser understands that the Securities have not been registered under the Securities Act and, therefore, cannot be offered or sold in the United States or to U.S. Persons unless they are registered under the Securities Act or unless an exemption from registration is available. Accordingly, the certificates representing the Securities will bear a legend stating that the Securities have not been registered under the Securities Act and setting forth certain of the restrictions on transfer of the Securities described herein. The purchaser understands that neither the Issuer nor (in the case of the Notes) the Co-Issuer has any obligation to register any of the Securities under the Securities Act or to comply with the requirements for any exemption from the registration requirements of the Securities Act (other than to supply information specified in Rule 144A(d)(4) of the Securities Act as required by the Indenture and the Preferred Security Documents).

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

(6) *Qualified Institutional Buyer or Non-U.S. Person Status; Investment Intent.* In the case of a purchaser who takes delivery of the Securities in the form of a Restricted Global Note (or interest

therein) or a Restrictive Definitive Preferred Security, it is (a) a Qualified Institutional Buyer or (b) in the case of a Restricted Definitive Preferred Security, an Accredited Investor and is acquiring the 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 Preferred Securities, (i) it is not a U.S. Person and is purchasing such Note or Preferred Security for its own account (or as agent on behalf of a client account) and not for the account or benefit of a U.S. Person and (ii) it understands that (A) interests in a Regulation S Global Note and a Regulation S Global Preferred Security may only be held through Euroclear or Clearstream, Luxembourg. (B) in the case of Regulation S Preferred Securities, delivery may be made only in accordance with the certification requirements set forth in the Preferred Security Documents and the Preferred Security 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 Preferred Security, it will transfer the interest in such Regulation S Global Note or Regulation S Global Preferred Security 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 Preferred Security.

(7) *Purchaser Sophistication; Non-Reliance; Suitability; Access to Information.* The purchaser (a) has such knowledge and experience in financial and business matters that the purchaser is capable of evaluating the merits and risks (including for tax, legal, regulatory, accounting and other financial purposes) of its prospective investment in Securities, (b) is financially able to bear such risk, (c) in making such investment is not relying on the advice or recommendations of any of the Initial Purchaser, the Placement Agent, the Issuer, the Co-Issuer, the Collateral Manager or any of their respective affiliates (or any representative of any of the foregoing) and (d) has determined that an investment in Securities is suitable and appropriate for it. The purchaser has received, and has had an adequate opportunity to review the contents of, this Offering Circular. The purchaser has had access to such financial and other information concerning the Issuer and the Securities as it has deemed necessary to make its own independent decision to purchase Securities, including the opportunity, at a reasonable time prior to its purchase of Securities, to ask questions and receive answers concerning the Issuer and the terms and conditions of the offering of the Securities. The purchaser acknowledges that it is aware that the Collateral Management Agreement and the Indenture authorize the Collateral Manager to cause the Issuer to purchase Collateral Debt Securities from, and sell Collateral Debt Securities to, the Collateral Manager, its affiliates and funds managed by the Collateral Manager or its affiliates and the purchaser consents to such purchases and sales; *provided* that they are carried out in compliance with the provisions of the Collateral Management Agreement and the Indenture.

(8) *Certain Resale Limitations.* The purchaser is aware that no 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 Preferred Security except (i) to a transferee (A) that (I) 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 (II) solely in the case of a Restricted Definitive Preferred Security that is an Accredited Investor, in accordance with another exemption from the registration requirements of the Securities Act (subject, in each case, 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) that is a Qualified Purchaser, (C) that is not a Flow-Through Investment Vehicle (other than a Qualifying Investment Vehicle), and (D) in the case of a transfer of an interest in a Preferred Security (other than the transferee of a Restricted Definitive Preferred Security or interest therein), that is not a Benefit Plan Investor or Controlling Person; (ii) in compliance with the certification (if any) and other requirements set forth in the Indenture or the Preferred Security Documents, as applicable; and (iii) 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 Preferred Security except (i) that is acquiring such interest in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, (B) that is not a U.S. Person (or acquiring such interest for the account or benefit of a U.S. Person), (C) that is not a Flow-Through Investment Vehicle (other than a Qualifying Investment Vehicle), (D) in the case of any transferee of an interest in a Regulation S Preferred Security, that is not a Benefit Plan Investor or Controlling Person, (ii) in compliance with the certification (if any) and other requirements set forth in the Indenture or the Preferred Security Documents and (iii) in accordance with any applicable securities laws of any state of the United States and any other relevant jurisdiction.

(9) *Limited Liquidity.* The purchaser understands that there is no market for any Class of Securities and that no assurance can be given as to the liquidity of any trading market for such Class of Securities or that a trading market for such Class of Securities will develop. It further understands that, although the Initial Purchaser and the Placement Agent may from time to time make a market in a Class of Securities, the Initial Purchaser and the Placement Agent 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 Securities for an indefinite period of time or until their maturity.

(10) *Investment Company Act.* The purchaser either (a) is not a U.S. Person or (b) is a Qualified Purchaser. The purchaser agrees that no sale, pledge or other transfer of a Note or Preferred Security (or any interest therein) may be made (a) to a transferee acquiring Restricted Notes (or any interest therein) or Restricted Definitive Preferred Securities, except to a transferee that is a Qualified Purchaser, (b) to a transferee acquiring an interest in a Regulation S Note or a Regulation S Preferred Security that is not a U.S. Person in an offshore transaction in accordance with Regulation S or (c) if such transfer would have the effect of requiring either of the Co-Issuers or the Collateral to register as an investment company under the Investment Company Act. If the purchaser is a U.S. Person that is an entity that would be an investment company but for the exception provided for in Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act (any such entity, an "excepted investment company"); (x) all of the beneficial owners of outstanding securities (other than short-term paper) of such entity (such beneficial owners determined in accordance with Section 3(c)(1)(A) of the Investment Company Act) that acquired such securities on or before April 30, 1996 ("pre-amendment beneficial owners"); and (y) all pre-amendment beneficial owners of the outstanding securities (other than short term paper) of any excepted investment company that, directly or indirectly, owns any outstanding securities of such entity, have consented to such entity's treatment as a Qualified Purchaser in accordance with the Investment Company Act.

(11) *ERISA.* In the case of a purchaser of a Note, either (a) it is not (and for so long as it holds any such Note or interest therein, will not be), and is not (and for so long as it holds any such Note or interest therein, will not be) acting on behalf of, a Benefit Plan Investor or a governmental or church plan which is subject to Similar Laws, or (b) its purchase and ownership of such Note will not constitute a non-exempt prohibited transaction in violation of Section 406 of ERISA or Section 4975 of the Code or a non-exempt violation of a Similar Law.

In the case of an Original Purchaser of a Restricted Definitive Preferred Security that purchases from the Issuer, 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 Preferred Security 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 Original Purchaser and each transferee of a Restricted Definitive Preferred Security understands and



agrees that no sale, pledge or other transfer of a Restricted Definitive Preferred Security (or any interest therein) may be made to a Benefit Plan Investor or a Controlling Person unless, after giving effect to such purchase or transfer, less than 25% (or such greater percentage as may be specified in regulations promulgated by the U.S. Department of Labor) of the class of such Preferred Securities would be held by Benefit Plan Investors (determined after disregarding the Preferred Securities held by Controlling Persons).

Each Original Purchaser and each transferee acquiring an interest in a Regulation S Global Preferred Security will be required to certify (or in certain circumstances deemed to represent and warrant) that it is not and that it will not become a Benefit Plan Investor or a Controlling Person while it shall hold such Regulation S Global Preferred Security or an interest therein.

(12) *Limitations on Flow-Through Status.* In the case of a purchaser that is a U.S. Person, it is either (a) not a Flow-Through Investment Vehicle or (b) a Qualifying Investment Vehicle. A purchaser is a "Flow-Through Investment Vehicle" if (i) in the case of a purchaser that would be an investment company but for the exception in Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act, the amount of the purchaser's investment in the Securities (including its investment in all Classes of Notes and the Preferred Securities) 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 Securities or (iv) additional capital or similar contributions were specifically solicited from any Person owning an equity or similar interest in the purchaser for the purpose of enabling the purchaser to purchase Securities. A "Qualifying Investment Vehicle" is an entity as to which all of the beneficial owners of any securities issued by such entity have made, and as to which (in accordance with the document pursuant to which such entity was organized or the agreement or other document governing such securities) each such beneficial owner must require any transferee of any such security to make, to the Issuer or the Co-Issuers, as the case may be, and the Note Registrar or the Preferred Security Registrar, as the case may be, each of the representations set forth in this Offering Circular, the transfer certificates, the Indenture (in the case of the Notes) or the Preferred Security Documents (in the case of the Preferred Securities) required to be made upon transfer of any Securities (with modifications to such representations satisfactory to the Issuer to reflect the indirect nature of the interests of such beneficial owners in such Notes or Preferred Securities, including any modification permitting the beneficial owner of securities issued by such entity to represent that, in the case of Preferred Securities, 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 Securities).

(13) *Certain Transfers Void.* The purchaser agrees that (a) any sale, pledge or other transfer of a Security (or any interest therein) made in violation of the transfer restrictions contained in this Offering Circular and in the Indenture, or in the Preferred Security Documents, or made based upon any false or inaccurate representation made by the purchaser or a transferee to the Issuer, will be void and of no force or effect and (b) none of the Issuer, the Trustee (in the case of the Notes), the Note Registrar (in the case of the Notes) and the Preferred Security Paying Agent (in the case of the Preferred Securities) has any obligation to recognize any sale, pledge or other transfer of a Security (or any interest therein) made

in violation of any such transfer restriction or made based upon any such false or inaccurate representation.

The purchaser of a Note acknowledges that the Indenture provides that if, notwithstanding the restrictions on transfer contained therein, either of the Co-Issuers determines that any beneficial owner or holder of (A) a Regulation S Note (or any interest therein) is a U.S. Person or (B) a Restricted Note (or any interest therein) is not a Qualified Institutional Buyer and also a Qualified Purchaser, then either of the Co-Issuers shall require, by notice to such beneficial owner or holder, as the case may be, that such beneficial owner or holder sell all of its right, title and interest to such Restricted Note (or any interest therein) to a person that (1) in the case of a person holding its interest through a Regulation S Note, is not a U.S. Person or (2) in the case of a person holding its interest through a Restricted Note, is both (I) a Qualified Institutional Buyer and (II) a Qualified Purchaser, with such sale to be effected within 30 days after notice of such sale requirement is given. If such beneficial owner or holder fails to effect the transfer required within such 30-day period, (i) upon written direction from the Collateral Manager or the Issuer, the Trustee, on behalf of and at the expense of the Issuer, shall, and is hereby irrevocably authorized by such beneficial owner or holder to, cause such beneficial owner's or holder's interest in such Note to be transferred in a commercially reasonable sale (conducted by an investment bank selected by the Trustee and approved by the Issuer in accordance with Section 9-610(b) of the Uniform Commercial Code as in effect in the State of New York as applied to securities that are sold on a recognized market or that may decline speedily in value) to a person that certifies to the Trustee and the Co-Issuers, in connection with such transfer, that such person (x) is not a U.S. Person (in the case of a person holding its interest through a Regulation S Note) or (y) is both (1) a Qualified Institutional Buyer and (2) a Qualified Purchaser (in the case of a person holding its interest through a Restricted Note) and (ii) pending such transfer, no further payments will be made in respect of such Note held by such beneficial owner or holder and such Note shall be deemed not to be outstanding for the purpose of any vote or consent of the Noteholders.

(14) *Limitation on Sales of Preferred Securities to Reg Y Institutions.* Each purchaser of Preferred Securities understands that no Reg Y Institution may transfer any Preferred Securities 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 Preferred Securities 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 Preferred Securities (including all options, warrants and similar rights exercisable or convertible into Preferred Securities) or (v) as otherwise permitted by applicable U.S. Federal banking law and regulations.

(15) *Reliance on Representations, etc.* The purchaser acknowledges that the Issuer, the Placement Agent, the Initial Purchaser, the Trustee, the Preferred Security Paying Agent, the Collateral Manager and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations, warranties and agreements and agrees that, if any of the acknowledgments, representations or warranties made or deemed to have been made by it in connection with its purchase of the Securities are no longer accurate, the purchaser will promptly notify the Issuer, the Placement Agent and the Initial Purchaser.

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

(17) *Legend.* Each purchaser of a Note (or any beneficial interest therein) understands and agrees that a legend in substantially the following form will be placed on each Note:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION, AND BENEFICIAL INTERESTS HEREIN MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (A) (1) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") PURCHASING FOR ITS OWN ACCOUNT, TO WHOM NOTICE IS GIVEN THAT THE RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON THE EXEMPTION FROM SECURITIES ACT REGISTRATION PROVIDED BY RULE 144A AND A QUALIFIED PURCHASER UNDER THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT") 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.

NO TRANSFER OF THIS NOTE (OR ANY INTEREST HEREIN) MAY BE MADE (AND NEITHER THE TRUSTEE NOR THE NOTE REGISTRAR WILL RECOGNIZE ANY SUCH TRANSFER) IF (A) SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE THAT IS A U.S. PERSON THAT IS NOT BOTH (X) A QUALIFIED INSTITUTIONAL BUYER AND (Y) EITHER (I) A "QUALIFIED PURCHASER" AS DEFINED IN THE INVESTMENT COMPANY ACT, (II) A "KNOWLEDGEABLE EMPLOYEE" WITH RESPECT TO THE ISSUER WITHIN THE MEANING OF RULE 3c-5 OF THE INVESTMENT COMPANY ACT OR (III) A COMPANY BENEFICIALLY OWNED EXCLUSIVELY BY ONE OR MORE SUCH QUALIFIED PURCHASERS AND/OR KNOWLEDGEABLE EMPLOYEES (EACH OF (I), (II) AND (III), A "QUALIFIED PURCHASER"), (B) SUCH TRANSFER WOULD HAVE THE EFFECT OF REQUIRING EITHER OF THE CO-ISSUERS OR THE COLLATERAL TO REGISTER AS AN INVESTMENT COMPANY UNDER THE INVESTMENT COMPANY ACT, (C) SUCH TRANSFER WOULD BE MADE TO A U.S. PERSON THAT IS A FLOW-THROUGH INVESTMENT VEHICLE OTHER THAN A QUALIFYING INVESTMENT VEHICLE (EACH AS DEFINED IN THE INDENTURE) OR (D) SUCH TRANSFER WOULD BE MADE TO A PERSON THAT IS OTHERWISE UNABLE TO MAKE THE CERTIFICATIONS AND REPRESENTATIONS REQUIRED BY THE APPLICABLE TRANSFER CERTIFICATE (IF ANY) ATTACHED AS AN EXHIBIT TO THE INDENTURE REFERRED TO HEREIN. EACH HOLDER OF THIS NOTE OR A BENEFICIAL INTEREST IN THIS NOTE IS REQUIRED TO CERTIFY (OR IN CERTAIN CIRCUMSTANCES IS DEEMED TO REPRESENT AND WARRANT) EITHER (A) THAT IT IS NOT (AND FOR SO LONG AS IT HOLDS THIS NOTE OR AN INTEREST HEREIN WILL NOT BE), AND IS NOT (AND FOR SO LONG AS IT HOLDS THIS NOTE OR ANY 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 THE PROVISIONS OF TITLE I OF ERISA, A "PLAN" THAT IS SUBJECT TO THE PROHIBITED TRANSACTION PROVISIONS OF SECTION 4975 OF THE INTERNAL

REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), AN ENTITY WHOSE ASSETS ARE TREATED AS "PLAN ASSETS" OF ANY SUCH EMPLOYEE BENEFIT PLAN OR PLAN PURSUANT TO ERISA, OR A GOVERNMENTAL OR CHURCH PLAN WHICH IS SUBJECT TO ANY FEDERAL, STATE OR LOCAL LAW THAT IS SIMILAR TO THE PROHIBITED TRANSACTION PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("SIMILAR LAW") OR (B) THE ACQUISITION AND HOLDING OF THIS NOTE WILL NOT CONSTITUTE A NON-EXEMPT PROHIBITED TRANSACTION IN VIOLATION OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF A GOVERNMENTAL OR CHURCH PLAN, WILL NOT RESULT IN A NON-EXEMPT VIOLATION OF ANY SUCH LAW OR SUCH SIMILAR LAW).

THIS NOTE OR ANY BENEFICIAL INTEREST HEREIN MAY BE TRANSFERRED ONLY IN PERMITTED DENOMINATIONS SPECIFIED IN THE INDENTURE. THIS NOTE OR ANY BENEFICIAL INTEREST HEREIN MAY BE TRANSFERRED TO A PERSON WHO ACQUIRES A BENEFICIAL INTEREST IN A [REGULATION S NOTE]<sup>1</sup> [RESTRICTED NOTE]<sup>2</sup> 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 THE INDENTURE, EITHER OF THE CO-ISSUERS DETERMINES THAT ANY BENEFICIAL OWNER OR HOLDER OF (A) A REGULATION S NOTE (OR ANY INTEREST THEREIN) IS A U.S. PERSON OR (B) A RESTRICTED NOTE (OR ANY INTEREST THEREIN) IS NOT BOTH A QUALIFIED INSTITUTIONAL BUYER AND A QUALIFIED PURCHASER, THEN EITHER OF THE CO-ISSUERS SHALL REQUIRE, BY NOTICE TO SUCH BENEFICIAL OWNER OR HOLDER, AS THE CASE MAY BE, THAT SUCH BENEFICIAL OWNER OR HOLDER SELL ALL OF ITS RIGHT, TITLE AND INTEREST TO SUCH RESTRICTED NOTE (OR ANY INTEREST THEREIN) TO A PERSON THAT (1) IS NOT A U.S. PERSON (IN THE CASE OF A PERSON HOLDING ITS INTEREST THROUGH A REGULATION S NOTE) OR (2) IN THE CASE OF A PERSON HOLDING ITS INTEREST THROUGH A RESTRICTED NOTE, IS BOTH (I) A QUALIFIED INSTITUTIONAL BUYER AND (II) A QUALIFIED PURCHASER, WITH SUCH SALE TO BE EFFECTED WITHIN 30 DAYS AFTER NOTICE OF SUCH SALE REQUIREMENT IS GIVEN. IF SUCH BENEFICIAL OWNER OR HOLDER FAILS TO EFFECT THE TRANSFER REQUIRED WITHIN SUCH 30-DAY PERIOD, (I) UPON WRITTEN DIRECTION FROM THE COLLATERAL MANAGER OR THE ISSUER, THE TRUSTEE SHALL, AND IS HEREBY IRREVOCABLY AUTHORIZED BY SUCH BENEFICIAL OWNER OR HOLDER TO, ON BEHALF OF AND AT THE EXPENSE OF THE ISSUER, CAUSE SUCH BENEFICIAL OWNER'S OR HOLDER'S INTEREST IN SUCH NOTE TO BE TRANSFERRED IN A COMMERCIALY REASONABLE SALE (CONDUCTED BY AN INVESTMENT BANK SELECTED BY THE TRUSTEE, AND APPROVED BY THE ISSUER IN ACCORDANCE WITH SECTION 9-610(b) OF THE UNIFORM COMMERCIAL CODE AS IN EFFECT IN THE STATE OF NEW YORK AS APPLIED TO SECURITIES THAT ARE SOLD ON A RECOGNIZED MARKET OR THAT MAY DECLINE SPEEDILY IN VALUE) TO A PERSON THAT CERTIFIES TO THE TRUSTEE, AND THE CO-ISSUERS, IN CONNECTION WITH SUCH TRANSFER, THAT SUCH PERSON (X) IS NOT A U.S.

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<sup>1</sup> Restricted Notes only.

<sup>2</sup> Regulation S Notes only.

PERSON (IN THE CASE OF A PERSON HOLDING ITS INTEREST THROUGH A REGULATION S NOTE) OR (Y) IS BOTH (1) A QUALIFIED INSTITUTIONAL BUYER AND (2) A QUALIFIED PURCHASER (IN THE CASE OF A PERSON HOLDING ITS INTEREST THROUGH A RESTRICTED NOTE) AND (II) PENDING SUCH TRANSFER, NO FURTHER PAYMENTS WILL BE MADE IN RESPECT OF SUCH NOTE HELD BY SUCH BENEFICIAL OWNER OR HOLDER AND SUCH NOTE SHALL BE DEEMED NOT TO BE OUTSTANDING FOR THE PURPOSE OF ANY VOTE OR CONSENT OF THE NOTEHOLDERS.

IN ADDITION, NO TRANSFER OF THIS NOTE (OR ANY INTEREST HEREIN) MAY BE MADE (AND NEITHER THE TRUSTEE NOR THE NOTE REGISTRAR WILL RECOGNIZE ANY SUCH TRANSFER) IF SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE THAT IS (A) A DEALER DESCRIBED IN PARAGRAPH (A)(1)(ii) OF RULE 144A WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.\$25,000,000 IN SECURITIES OF ISSUERS THAT ARE NOT AFFILIATED PERSONS OF THE DEALER OR (B) A PLAN REFERRED TO IN PARAGRAPH (a)(1)(i)(D) OR (a)(1)(i)(E) OF RULE 144A OR A TRUST FUND REFERRED TO IN PARAGRAPH (a)(1)(i)(F) OF RULE 144A THAT HOLDS THE ASSETS OF SUCH A PLAN, UNLESS INVESTMENT DECISIONS WITH RESPECT TO THE PLAN ARE MADE SOLELY BY THE FIDUCIARY, TRUSTEE OR SPONSOR OF SUCH PLAN. THE TRANSFEREE, AND EACH ACCOUNT FOR WHICH IT IS PURCHASING, IS REQUIRED TO HOLD AND TRANSFER AT LEAST THE MINIMUM DENOMINATION OF THE NOTES.

The following will be inserted in the case of Class D Notes, Class E Notes, Class F Notes and Class G Notes:

THIS NOTE HAS BEEN ISSUED WITH ORIGINAL ISSUE DISCOUNT ("OID") FOR UNITED STATES FEDERAL INCOME TAX PURPOSES. THE ISSUE PRICE, AMOUNT OF OID, ISSUE DATE AND YIELD TO MATURITY OF THIS NOTE MAY BE OBTAINED BY WRITING TO THE ISSUER AT C/O WALKERS SPV LIMITED, P.O. BOX 908GT, WALKER HOUSE, MARY STREET, GEORGE TOWN, GRAND CAYMAN, CAYMAN ISLANDS.

The following will be inserted in the case of Global Notes:

UNLESS THIS NOTE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY ("DTC") TO THE NOTE REGISTRAR FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY NOTE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

In addition, the legend set forth on any Regulation S Note will also have the following:

THIS NOTE OR ANY BENEFICIAL INTEREST HEREIN MAY NOT BE HELD BY A U.S. PERSON AT ANY TIME.

(18) *Legend for Preferred Securities.* The purchaser understands and agrees that a legend in substantially the following form will be placed on each certificate representing any Preferred Securities:

THE PREFERRED SECURITIES 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 AND A QUALIFIED PURCHASER UNDER THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT"), (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT ("REGULATION S") OR (3) TO AN ACCREDITED INVESTOR IN ACCORDANCE WITH ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT (SUBJECT TO THE DELIVERY OF SUCH CERTIFICATIONS, LEGAL OPINIONS OR OTHER INFORMATION AS THE ISSUER MAY REASONABLY REQUIRE TO CONFIRM THAT SUCH TRANSFER IS BEING MADE PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT), (B) IN COMPLIANCE WITH THE CERTIFICATION AND OTHER REQUIREMENTS SPECIFIED IN THE ISSUER CHARTER AND THE PREFERRED SECURITY 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.

EACH ORIGINAL PURCHASER AND EACH TRANSFEREE OF A REGULATION S PREFERRED SECURITY WILL BE REQUIRED TO CERTIFY (OR IN CERTAIN CIRCUMSTANCES DEEMED TO REPRESENT AND WARRANT) THAT IT IS NOT A BENEFIT PLAN INVESTOR OR CONTROLLING PERSON. EACH ORIGINAL PURCHASER AND EACH TRANSFEREE OF A RESTRICTED DEFINITIVE PREFERRED SECURITY OR AN INTEREST THEREIN WILL BE REQUIRED TO CERTIFY WHETHER OR NOT IT IS A BENEFIT PLAN INVESTOR OR A CONTROLLING PERSON (EACH, AS DEFINED BELOW). NO PURCHASE OR TRANSFER OF A RESTRICTED DEFINITIVE PREFERRED SECURITY WILL BE EFFECTIVE, AND NEITHER THE ISSUER NOR THE PREFERRED SECURITY REGISTRAR WILL RECOGNIZE ANY SUCH PURCHASE OR TRANSFER UNLESS, AFTER GIVING EFFECT TO SUCH TRANSFER, LESS THAN 25% (OR SUCH GREATER PERCENTAGE AS MAY BE SPECIFIED IN REGULATIONS PROMULGATED BY THE U.S. DEPARTMENT OF LABOR) OF THE CLASS OF SUCH PREFERRED SECURITIES (DISREGARDING THE PREFERRED SECURITIES HELD BY PERSONS OTHER THAN BENEFIT PLAN INVESTORS WHO HAVE DISCRETIONARY AUTHORITY OR CONTROL WITH RESPECT TO THE ASSETS OF THE ISSUER, OR WHO PROVIDE INVESTMENT ADVICE FOR A FEE, DIRECT OR INDIRECT, WITH RESPECT TO SUCH ASSETS, OR ANY AFFILIATES OF SUCH PERSONS (EACH, A "CONTROLLING PERSON")) WOULD BE HELD BY BENEFIT PLAN INVESTORS. NO REGULATION S GLOBAL PREFERRED SECURITY OR AN INTEREST THEREIN MAY BE ACQUIRED BY OR TRANSFERRED TO A BENEFIT PLAN INVESTOR OR A

CONTROLLING PERSON, AND EACH SUCH ACQUIRER OR TRANSFEREE WILL BE DEEMED TO REPRESENT OR WARRANT THAT IT IS NOT AND THAT IT SHALL NOT BECOME A BENEFIT PLAN INVESTOR OR A CONTROLLING PERSON WHILE IT SHALL HOLD SUCH REGULATION S GLOBAL PREFERRED SECURITY OR INTEREST THEREIN).

AN ORIGINAL PURCHASER AND EACH TRANSFEREE OF A RESTRICTED DEFINITIVE PREFERRED SECURITY THAT IS A BENEFIT PLAN INVESTOR WILL BE REQUIRED TO CERTIFY THAT ITS ACQUISITION AND HOLDING OF SUCH PREFERRED SECURITIES WILL NOT CONSTITUTE A NON-EXEMPT PROHIBITED TRANSACTION IN VIOLATION OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF A GOVERNMENTAL OR CHURCH PLAN, WILL NOT RESULT IN A NON-EXEMPT VIOLATION OF ANY SUCH LAW OR SIMILAR LAW). A "BENEFIT PLAN INVESTOR" INCLUDES AN "EMPLOYEE BENEFIT PLAN" (AS DEFINED IN SECTION 3(3) OF ERISA), THAT IS SUBJECT TO THE PROVISIONS OF TITLE I OF ERISA, A "PLAN" THAT IS SUBJECT TO THE PROHIBITED TRANSACTIONS PROVISIONS OF SECTION 4975 OF THE CODE, ANY ENTITY WHOSE ASSETS ARE TREATED AS "PLAN ASSETS" UNDER ERISA BY REASON OF AN EMPLOYEE BENEFIT PLAN'S OR PLAN'S INVESTMENT IN THE ENTITY, AND AN INSURANCE COMPANY GENERAL ACCOUNT (AND A WHOLLY OWNED SUBSIDIARY OF SUCH GENERAL ACCOUNT) ANY OF THE UNDERLYING ASSETS OF WHICH CONSTITUTE "PLAN ASSETS" UNDER SECTION 401(c) OF ERISA.

NO TRANSFER OF THE PREFERRED SECURITIES REPRESENTED HEREBY (OR AN INTEREST HEREIN) MAY BE MADE (AND NEITHER THE ISSUER NOR THE PREFERRED SECURITY REGISTRAR WILL RECOGNIZE ANY SUCH TRANSFER) IF (A) SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE THAT IS A U.S. PERSON THAT IS NOT (1) A "QUALIFIED PURCHASER" AS DEFINED IN THE INVESTMENT COMPANY ACT, (2) A "KNOWLEDGEABLE EMPLOYEE" WITH RESPECT TO THE ISSUER WITHIN THE MEANING OF RULE 3c-5 OF THE INVESTMENT COMPANY ACT OR (3) A COMPANY BENEFICIALLY OWNED EXCLUSIVELY BY ONE OR MORE SUCH QUALIFIED PURCHASERS AND/OR KNOWLEDGEABLE EMPLOYEES (EACH OF (1), (2) AND (3), A "QUALIFIED PURCHASER"), (B) SUCH TRANSFER WOULD HAVE THE EFFECT OF REQUIRING THE ISSUER OR THE COLLATERAL TO REGISTER AS AN INVESTMENT COMPANY UNDER THE INVESTMENT COMPANY ACT, (C) SUCH TRANSFER IS MADE TO A BENEFIT PLAN INVESTOR OR A CONTROLLING PERSON,<sup>3</sup> [EXCEPT TO A BENEFIT PLAN INVESTOR WHOSE INVESTMENT IN PREFERRED SECURITIES WOULD NOT RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR IN THE CASE OF A GOVERNMENTAL OR CHURCH PLAN, WILL NOT RESULT IN A VIOLATION OF ANY SUCH LAW OR SUCH SIMILAR LAW) OR TO A CONTROLLING PERSON AND ONLY IF, AFTER GIVING EFFECT TO SUCH PURCHASE, LESS THAN 25% (OR SUCH GREATER PERCENTAGE AS MAY BE SPECIFIED IN REGULATIONS PROMULGATED BY THE U.S. DEPARTMENT OF LABOR) OF THE CLASS OF SUCH PREFERRED SECURITIES (DISREGARDING PREFERRED SECURITIES HELD BY CONTROLLING PERSONS) WOULD BE HELD BY BENEFIT PLAN INVESTORS],<sup>4</sup> (D) SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE THAT IS A U.S. PERSON WHICH IS A FLOW-

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<sup>3</sup> Regulation S Preferred Securities only.

<sup>4</sup> Restricted Definitive Preferred Securities only.

THROUGH INVESTMENT VEHICLE OTHER THAN A QUALIFYING INVESTMENT VEHICLE (EACH AS DEFINED IN THE TRANSFER CERTIFICATE ATTACHED TO THE PREFERRED SECURITY PAYING AGENCY AGREEMENT) OR (E) SUCH TRANSFER WOULD BE MADE TO A PERSON THAT IS OTHERWISE UNABLE TO MAKE THE CERTIFICATIONS AND REPRESENTATIONS REQUIRED BY THE APPLICABLE TRANSFER CERTIFICATE ATTACHED AS AN EXHIBIT TO THE PREFERRED SECURITY PAYING AGENCY AGREEMENT REFERRED TO HEREIN. ACCORDINGLY, AN INVESTOR IN THE PREFERRED SECURITIES MUST BE PREPARED TO BEAR THE ECONOMIC RISK OF THE INVESTMENT FOR AN INDEFINITE PERIOD OF TIME. EACH HOLDER HEREOF IS REQUIRED IN WRITING OR DEEMED TO REPRESENT AND WARRANT (1) IN THE CASE OF A TRANSFEREE OF A RESTRICTED DEFINITIVE PREFERRED SECURITY, EITHER (X) THAT IT IS NOT (AND FOR SO LONG AS IT HOLDS THIS PREFERRED SECURITY OR AN INTEREST HEREIN WILL NOT BE) A BENEFIT PLAN INVESTOR OR A CONTROLLING PERSON OR (Y) ITS HOLDING OF RESTRICTED DEFINITIVE PREFERRED SECURITIES WILL NOT RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR IN THE CASE OF A GOVERNMENTAL OR CHURCH PLAN, WILL NOT RESULT IN A VIOLATION OF ANY SUCH LAW OR SUCH SIMILAR LAW) OR (2) IN THE CASE OF A TRANSFEREE OF A REGULATION S PREFERRED SECURITY, THAT IT IS NOT (AND FOR SO LONG AS IT HOLDS THIS PREFERRED SECURITY OR AN INTEREST THEREIN, WILL NOT BE) A BENEFIT PLAN INVESTOR OR A CONTROLLING PERSON.

THE PREFERRED SECURITIES REPRESENTED HEREBY OR ANY BENEFICIAL INTEREST HEREIN MAY BE TRANSFERRED IN AN AMOUNT NOT LESS THAN THE MINIMUM TRADING LOT SPECIFIED IN THE PREFERRED SECURITY PAYING AGENCY AGREEMENT. IF, NOTWITHSTANDING THE RESTRICTIONS SET FORTH IN THE PREFERRED SECURITY PAYING AGENCY AGREEMENT, THE ISSUER DETERMINES THAT ANY HOLDER OF THIS PREFERRED SECURITY OR AN INTEREST HEREIN (X) IS A U.S. PERSON (IN THE CASE OF A PERSON ACQUIRING (A) REGULATION S DEFINITIVE PREFERRED SECURITIES OR (B) ITS INTEREST THROUGH A REGULATION S GLOBAL PREFERRED SECURITY), OR (Y) IS NOT BOTH (I) (A) A QUALIFIED INSTITUTIONAL BUYER OR (B) AN ACCREDITED INVESTOR ENTITLED TO TAKE DELIVERY OF SUCH RESTRICTED DEFINITIVE PREFERRED SECURITY PURSUANT TO ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND (II) A QUALIFIED PURCHASER (IN THE CASE OF A PERSON ACQUIRING A RESTRICTED DEFINITIVE PREFERRED SECURITY), THEN THE ISSUER (OR THE COLLATERAL MANAGER ON ITS BEHALF) SHALL REQUIRE, BY NOTICE TO SUCH HOLDER THAT SUCH HOLDER SELL ALL OF ITS RIGHT, TITLE AND INTEREST TO THIS PREFERRED SECURITY (OR INTEREST HEREIN) TO A PERSON THAT (1) IS NOT A U.S. PERSON (IN THE CASE OF A PERSON HOLDING (A) REGULATION S DEFINITIVE PREFERRED SECURITIES OR (B) ITS INTEREST THROUGH A REGULATION S GLOBAL PREFERRED SECURITY) OR (2) IS BOTH (A)(X) A QUALIFIED INSTITUTIONAL BUYER OR (Y) AN ACCREDITED INVESTOR ENTITLED TO TAKE DELIVERY OF SUCH RESTRICTED DEFINITIVE PREFERRED SECURITY PURSUANT TO ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND (B) A QUALIFIED PURCHASER (IN THE CASE OF A PERSON HOLDING RESTRICTED DEFINITIVE PREFERRED SECURITIES) AND (3) IN ALL CASES, IS NOT A BENEFIT PLAN INVESTOR OR A CONTROLLING PERSON, WITH SUCH SALE TO BE EFFECTED WITHIN 30 DAYS AFTER NOTICE OF SUCH SALE REQUIREMENT IS GIVEN. IF SUCH



HOLDER FAILS TO EFFECT THE TRANSFER REQUIRED WITHIN SUCH 30-DAY PERIOD, (X) UPON WRITTEN DIRECTION FROM THE ISSUER (OR THE COLLATERAL MANAGER ON BEHALF OF THE ISSUER), THE PREFERRED SECURITY PAYING AGENT SHALL, AND IS HEREBY IRREVOCABLY AUTHORIZED BY SUCH HOLDER TO, CAUSE SUCH HOLDER'S INTEREST IN THIS PREFERRED SECURITY TO BE TRANSFERRED IN A COMMERCIALY REASONABLE SALE ARRANGED BY THE ISSUER (CONDUCTED BY AN INVESTMENT BANK SELECTED BY THE PREFERRED SECURITY PAYING AGENT AND APPROVED BY THE ISSUER IN ACCORDANCE WITH SECTION 9-610(b) OF THE UCC AS IN EFFECT IN THE STATE OF NEW YORK AS APPLIED TO SECURITIES THAT ARE SOLD ON A RECOGNIZED MARKET OR THAT MAY DECLINE SPEEDILY IN VALUE) TO A PERSON THAT CERTIFIES TO THE PREFERRED SECURITY PAYING AGENT AND THE ISSUER, IN CONNECTION WITH SUCH TRANSFER, THAT SUCH PERSON (I) IS NOT A U.S. PERSON (IN THE CASE OF A PERSON HOLDING (A) REGULATION S DEFINITIVE PREFERRED SECURITIES OR (B) ITS INTEREST THROUGH A REGULATION S GLOBAL PREFERRED SECURITY) OR (II) IS BOTH (1)(A) A QUALIFIED INSTITUTIONAL BUYER OR (B) AN ACCREDITED INVESTOR ENTITLED TO TAKE DELIVERY OF SUCH RESTRICTED DEFINITIVE PREFERRED SECURITY PURSUANT TO ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND (2) A QUALIFIED PURCHASER (IN THE CASE OF A PERSON HOLDING RESTRICTED DEFINITIVE PREFERRED SECURITIES) AND (III) IN ALL CASES, IS NOT A BENEFIT PLAN INVESTOR NOR A CONTROLLING PERSON, AND (Y) PENDING SUCH TRANSFER, NO FURTHER PAYMENTS WILL BE MADE IN RESPECT OF THE INTEREST IN THE PREFERRED SECURITY HELD BY SUCH HOLDER, AND THE INTEREST IN THIS PREFERRED SECURITY SHALL NOT BE DEEMED TO BE OUTSTANDING FOR THE PURPOSE OF ANY VOTE OR CONSENT OF THE HOLDERS OF THE PREFERRED SECURITIES. NONE OF THE ISSUER, THE COLLATERAL MANAGER OR THE TRUSTEE SHALL HAVE ANY LIABILITY TO SUCH OWNER (OR OTHER PERSON) FOR THE RESULTS OF ANY SUCH SALE (INCLUDING THE PRICE RECEIVED) CONDUCTED IN GOOD FAITH IN ACCORDANCE WITH THE FOREGOING TERMS.

The following shall be inserted in the case of Regulation S Global Preferred Securities:

UNLESS THIS REGULATION S GLOBAL PREFERRED SECURITY CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY ("DTC") TO THE PREFERRED SECURITY REGISTRAR FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

THIS REGULATION S GLOBAL PREFERRED SECURITY CERTIFICATE REPRESENTS REGULATION S GLOBAL PREFERRED SECURITIES DEPOSITED WITH DTC ACTING AS DEPOSITORY, AND REGISTERED IN THE NAME OF CEDE & CO., A NOMINEE OF DTC, AND CEDE & CO., AS HOLDER OF RECORD, SHALL BE ENTITLED TO RECEIVE ALL DISTRIBUTIONS, OTHER THAN THE FINAL REDEMPTION AMOUNTS, BY WIRE TRANSFER OF IMMEDIATELY AVAILABLE FUNDS. THE STATEMENTS IN THE

LEGEND RELATING TO DTC SET FORTH ABOVE ARE AN INTEGRAL PART OF THE TERMS OF THESE PREFERRED SECURITIES AND BY ACCEPTANCE THEREOF EACH HOLDER AGREES TO BE SUBJECT TO AND BOUND BY THE TERMS AND PROVISIONS SET FORTH IN SUCH LEGEND. UPON ANY SUCH EXCHANGE OR TRANSFER OF A BENEFICIAL INTEREST IN THIS REGULATION S GLOBAL PREFERRED SECURITY CERTIFICATE FOR A DEFINITIVE PREFERRED SECURITY CERTIFICATE OR UPON ANY EXCHANGE OR TRANSFER OF A DEFINITIVE PREFERRED SECURITY CERTIFICATE FOR AN INTEREST IN THIS REGULATION S GLOBAL PREFERRED SECURITY CERTIFICATE IN ACCORDANCE WITH THE PREFERRED SECURITY PAYING AGENCY AGREEMENT, THIS REGULATION S GLOBAL PREFERRED SECURITY CERTIFICATE SHALL BE CANCELLED AND A NEW REGULATION S GLOBAL PREFERRED SECURITY CERTIFICATE WILL BE ISSUED AND REGISTERED IN THE NAME OF CEDE & CO., AS NOMINEE OF DTC, REFLECTING THE NUMBER OF PREFERRED SECURITIES HELD IN REGULATION S GLOBAL FORM.

THIS PREFERRED SECURITY OR ANY BENEFICIAL INTEREST HEREIN MAY BE TRANSFERRED TO A PERSON WHO ACQUIRES A BENEFICIAL INTEREST IN A RESTRICTED DEFINITIVE PREFERRED SECURITY ONLY UPON RECEIPT BY THE ISSUER AND THE PREFERRED SECURITY PAYING AGENT OF A LETTER SUBSTANTIALLY IN THE FORM SPECIFIED IN THE PREFERRED SECURITY PAYING AGENCY AGREEMENT.

The following shall be inserted in the case of Regulation S Preferred Securities:

THIS PREFERRED SECURITY OR ANY BENEFICIAL INTEREST HEREIN MAY NOT BE HELD BY A U.S. PERSON AT ANY TIME.

The following shall be inserted in the case of Restricted Definitive Preferred Securities:

THIS PREFERRED SECURITY OR ANY BENEFICIAL INTEREST HEREIN MAY BE TRANSFERRED TO A PERSON WHO ACQUIRES A BENEFICIAL INTEREST IN A REGULATION S GLOBAL PREFERRED SECURITY CERTIFICATE ONLY UPON RECEIPT BY THE ISSUER AND THE PREFERRED SECURITY PAYING AGENT OF A LETTER SUBSTANTIALLY IN THE FORM SPECIFIED IN THE PREFERRED SECURITY PAYING AGENCY AGREEMENT.

Investor Representations on Resale. Except as provided below, each transferee of a Security will be required to deliver to the Co-Issuers, the Note Registrar or the Preferred Security Paying Agent, as the case may be, a duly executed transferee certificate in the form of the relevant exhibit attached to the Indenture or the Preferred Security 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 Preferred Security 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 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 Preferred Security will be deemed to make the same representations and warranties at the time of purchase that a transferee of a Note or Preferred Security 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 a Security that is required to deliver a transfer certificate will be required, pursuant to such transferee certificate, and each transferee who is not required to deliver a certificate will be deemed (a) to acknowledge, represent and warrant to and agree with the Issuer and the Trustee as to the matters set forth in each of paragraphs (1) through (18) above, as applicable to the Notes or the Preferred Securities, 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 Preferred Security Paying Agent (in the case of Preferred Security) as follows:

(1) In the case of a transferee who takes delivery of a beneficial interest in a Restricted Global Note, it (i) is both a Qualified Institutional Buyer and a Qualified Purchaser; (ii) is not a dealer described in paragraph (a)(1)(ii) of Rule 144A unless such purchaser owns and invests on a discretionary basis at least U.S.\$25,000,000 in securities of issuers that are not affiliated persons of the dealer; (iii) is not a plan referred to in paragraph (a)(1)(i)(D) or (a)(1)(i)(E) of Rule 144A, or a trust fund referred to in paragraph (a)(1)(i)(F) of Rule 144A that holds the assets of such a plan, unless investment decisions with respect to the plan are made solely by the fiduciary, trustee or sponsor of such plan; (iv) it will provide written notice of the foregoing, and of any applicable restrictions on transfer, to any transferee; and (v) is acquiring such Securities for its own account. In the case of a transferee who takes delivery of a Restricted Definitive Preferred Security, unless such transfer is effected to an Accredited Investor 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 Preferred Securities, it (i) is acquiring such Notes or Preferred Securities in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S; (ii) is acquiring such Notes or Preferred Securities for its own account; (iii) is not acquiring, and has not entered into any discussions regarding its acquisition of, such Notes or Preferred Securities while it is in the United States or any of its territories or possessions; (iv) understands that such Notes and Preferred Securities 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 Preferred Securities 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 Preferred Security, understands that an interest in a Regulation S Global Preferred Security 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.

(2) It acknowledges that the foregoing acknowledgements, representations, warranties and agreements will be relied upon by the Co-Issuer and the Trustee (in the case of a Note) or the Preferred Security Paying Agent (in the case of Preferred Security) for the purpose of determining its eligibility to purchase Securities. It agrees to provide, if requested, any additional information that may be required to substantiate its status as a Qualified Institutional Buyer or under the exception provided pursuant to Section 3(c)(7) of the Investment Company Act and Rule 3c-5 promulgated under the Investment Company Act, to determine compliance with ERISA and/or Section 4975 of the Code and/or Similar Law or to otherwise determine its eligibility to purchase Securities.

## LISTING AND GENERAL INFORMATION

1. Application will be made to the Irish Stock Exchange for the Notes to be admitted to the official list of the Irish Stock Exchange and to trading on its regulated market. No assurances can be given that any such listing will be obtained with respect to the Notes. No application will be or will be made to list the Notes on any other stock exchange.

2. For as long as the Notes are listed on the Irish Stock Exchange, following the date of this Offering Circular, copies of the Issuer Charter and the Limited Liability Company Agreement of the Co-Issuer, this Offering Circular, the Indenture, the Collateral Management Agreement, the Class A-1 Swap, any Hedge Agreement, the Preferred Security Paying Agency Agreement, the Administration Agreement, the Paying Agency Agreement for Ireland (such agreements, collectively, the "Material Contracts") and a description of the Collateral will be available for inspection, in electronic or physical form, and will be obtainable at the registered office of the Issuer, where copies thereof may be obtained upon request.

3. If and for so long as any Class of Notes is listed on the Irish Stock Exchange, copies of the Material Contracts, the Issuer Charter, the Certificate of Incorporation of the Issuer, the Limited Liability Company Agreement of the Co-Issuer, the resolutions of the board of directors of the Issuer authorizing the issuance of the Notes and the resolutions of the sole member of the Co-Issuer authorizing the issuance of the Notes will be available for inspection during the terms of the Notes at the office of the Trustee. The Issuer is not required by the laws of Cayman Islands, and the Issuer does not intend, to publish annual reports and accounts. The Co-Issuer is not required by the laws of the State of Delaware, and the Co-Issuer does not intend, to publish annual reports and accounts. The Indenture, however, requires the Issuer to provide the Trustee with written notice, on an annual basis, that to the best of its knowledge, following review of the activities in the prior year, no Event of Default or other matter required to be brought to the Trustee's attention has occurred or, if one has, specifying the same.

4. Each of the Co-Issuers will represent that, as of the date of this Offering Circular, there has been no material adverse change in its financial position since the date of its creation. Neither of the Co-Issuers is involved, or has been involved since its organization, in any governmental, legal or arbitration proceedings relating to claims on amounts which may have or have had a significant effect on the Co-Issuers' financial position or profitability in the context of the issuance of the Notes, nor, so far as such Co-Issuer is aware, is any such governmental, legal or arbitration involving it pending or threatened.

5. The issuance of the Notes will be authorized by the board of directors of the Issuer by resolutions passed on or prior to the Closing Date. The issuance of the Notes will be authorized by the sole member of the Co-Issuer by resolutions passed on or prior to the Closing Date. Since its organization, neither the Issuer nor the Co-Issuer has commenced trading, established any accounts or declared any dividends, except for the transactions described herein relating to the issuance of the Securities.

6. The Notes sold in offshore transactions in reliance on Regulation S under the Securities Act and represented by Global Notes have been accepted for clearance through Clearstream, Luxembourg and Euroclear under the Common Codes set forth below. The CUSIP (CINS) Numbers and International Securities Identification Numbers (ISIN) for each Class of Notes are as set forth in the table below:

	Regulation S Common Codes	Regulation S Global Note CUSIP Numbers	Restricted Global Note CUSIP Numbers	Regulation S International Securities Identification Numbers
Class A-1 Notes <sup>5</sup>	26917751	G6742BAA6	67572GAA9	USG6742BAA64
Class A-2A Notes	26920302	G6742BAB4	67572GAB7	USG6742BAB48
Class A-2B Notes	26920485	G6742BAC2	67572GAC5	USG6742BAC21
Class B Notes	26920582	G6742BAD0	67572GAD3	USG6742BAD04
Class C Notes	26920728	G6742BAE8	67572GAE1	USG6742BAE86
Class D Notes	26920841	G6742BAF5	67572GAF8	USG6742BAF51
Class E Notes	26920922	G6742BAG3	67572GAG6	USG6742BAG35
Class F Notes	26921210	G6742BAH1	67572GAH4	USG6742BAH18
Class G Notes	26921317	G6742BAJ7	67572GAJ0	USG6742BAJ73

7. Preferred Securities sold in offshore transactions in reliance on Regulation S and represented by Regulation S Global Preferred Securities 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 Preferred Securities:

	Regulation S Common Codes	Regulation S Global Note CUSIP Numbers	Restricted Global Note CUSIP Numbers	Regulation S International Securities Identification Numbers
Class A Preferred Securities	26919134	G6742A100	67572D108	KYG6742A1004
Class B Preferred Securities	26919304	G6742A118	67572D306	KYG6742A1186

<sup>5</sup> For the portion of the Class A Notes not drawn on the Closing Date, there will be multiple CUSIP numbers.

## **LEGAL MATTERS**

Certain legal matters with respect to New York law will be passed upon for the Issuer by Schulte Roth & Zabel LLP, New York, New York. Schulte Roth & Zabel LLP also acts as counsel to the Initial Purchaser. Certain matters with respect to Cayman Islands corporate law and tax law will be passed upon for the Issuer by Walkers. Certain legal matters with respect to the Collateral Manager will be passed upon by McDermott Will & Emery LLP, 340 Madison Avenue, New York, New York 10173.

## SCHEDULE A

### Part I Moody's Recovery Rate Matrix

(see definition of "Applicable Recovery Rate")

#### A. ABS Type Diversified Securities

Percentage of Total Capitalization	Moody's Rating*					
	Aaa	Aa	A	Baa	Ba	B
Greater than 70%	85%	80%	70%	60%	50%	40%
Less than or equal to 70%, but greater than 10%	75%	70%	60%	50%	40%	30%
Less than or equal to 10%	70%	65%	55%	45%	35%	25%

#### B. ABS Type Residential Securities

Percentage of Total Capitalization	Moody's Rating*					
	Aaa	Aa	A	Baa	Ba	B
Greater than 70%	85%	80%	65%	55%	45%	30%
Less than or equal to 70%, but greater than 10%	75%	70%	55%	45%	35%	25%
Less than or equal to 10%, but greater than 5%	65%	55%	45%	40%	30%	20%
Less than or equal to 5%, but greater than 2%	55%	45%	40%	35%	25%	15%
Less than or equal to 2%	45%	35%	30%	25%	15%	10%



**C. ABS Type Undiversified Securities**

Percentage of Total Capitalization	Moody's Rating*					
	Aaa	Aa	A	Baa	Ba	B
Greater than 70%	85%	80%	65%	55%	45%	30%
Less than or equal to 70%, but greater than 10%	75%	70%	55%	45%*	35%	25%
Less than or equal to 10%, but greater than 5%	65%	55%	45%	35%	25%	15%
Less than or equal to 5%, but greater than 2%	55%	45%	35%	30%	20%	10%
Less than or equal to 2%	45%	35%	25%	20%	10%	5%

**D. Low-Diversity CDO Securities and CDO Obligations with a Moody's Asset Correlation of 15% or more**

Percentage of Total Capitalization	Moody's Rating*					
	Aaa	Aa	A	Baa	Ba	B
Greater than 70%	80%	75%	60%	50%	45%	30%
Less than or equal to 70%, but greater than 10%	70%	60%	55%	45%	35%	25%
Less than or equal to 10%, but greater than 5%	60%	50%	45%	35%	25%	15%
Less than or equal to 5%, but greater than 2%	50%	40%	35%	30%	20%	10%
Less than or equal to 2%	30%	25%	20%	15%	7%	6%

**E. High-Diversity CDO Securities and CDO Obligations with a Moody's Asset Correlation less than 15%**

Percentage of Total Capitalization	Moody's Rating*					
	Aaa	Aa	A	Baa	Ba	B
Greater than 70%	85%	80%	65%	55%	45%	30%
Less than or equal to 70%, but greater than 10%	75%	70%	60%	50%	40%	25%
Less than or equal to 10%, but greater than 5%	65%	55%	50%	40%	30%	20%
Less than or equal to 5%, but greater than 2%	55%	45%	40%	35%	25%	10%
Less than or equal to 2%	45%	35%	30%	25%	10%	5%

\* The rating assigned by Moody's on the closing date for such Collateral Debt Security.

## Part II

### Standard & Poor's Recovery Rate Matrix

- A. If the Collateral Debt Security (other than a Synthetic Security, an ABS REIT Debt Security, a Project Finance Security, a future flow security, a market value CDO Obligation, a Form Approved Synthetic Security or a Corporate Guaranteed Security) is the senior-most tranche of securities issued by the issuer of such Collateral Debt Security the recovery rate is as follows:\***

Standard & Poor's Rating of Collateral Debt Security	Recovery Rate by Rating of Notes						
	AAA	AA	A	BBB	BB	B	CCC
"AAA"	80.0%	85.0%	90.0%	90.0%	90.0%	90.0%	90.0%
"AA-", "AA" or "AA+"	70.0%	75.0%	85.0%	90.0%	90.0%	90.0%	90.0%
"A-", "A" or "A+"	60.0%	65.0%	75.0%	85.0%	90.0%	90.0%	90.0%
"BBB-", "BBB" or "BBB+"	50.0%	55.0%	65.0%	75.0%	85.0%	85.0%	85.0%

- B. If the Collateral Debt Security (other than a Synthetic Security, an ABS REIT Debt Security, a Project Finance Security, a future flow security, a market value CDO Obligation, a Form Approved Synthetic Security or a Corporate Guaranteed Security) is not the senior-most tranche of securities issued by the issuer of such Collateral Debt Security the recovery rate is as follows:\***

Standard & Poor's Rating of Collateral Debt Security	Recovery Rate by Rating of Notes						
	AAA	AA	A	BBB	BB	B	CCC
"AAA"	65.0%	70.0%	80.0%	85.0%	85.0%	85.0%	85.0%
"AA-", "AA" or "AA+"	55.0%	65.0%	75.0%	80.0%	80.0%	80.0%	80.0%
"A-", "A" or "A+"	40.0%	45.0%	55.0%	65.0%	80.0%	80.0%	80.0%
"BBB-", "BBB" or "BBB+"	30.0%	35.0%	40.0%	45.0%	50.0%	60.0%	70.0%
"BB-", "BB" or "BB+"	10.0%	10.0%	10.0%	25.0%	35.0%	40.0%	50.0%
"B-", "B" or "B+"	2.5%	5.0%	5.0%	10.0%	10.0%	20.0%	25.0%
"CCC+" and below	0.0%	0.0%	0.0%	0.0%	2.5%	5.0%	5.0%

**C. If the Collateral Debt Security is a CMBS, the recovery rate is as follows:\***

Standard & Poor's Rating of Collateral Debt Security	Recovery Rate by Rating of Notes						
	AAA	AA	A	BBB	BB	B	CCC
"AAA"	80.0%	85.0%	90.0%	90.0%	90.0%	90.0%	90.0%
"AA-," "AA" or "AA+"	70.0%	75.0%	85.0%	90.0%	90.0%	90.0%	90.0%
"A-," "A" or "A+"	60.0%	65.0%	75.0%	85.0%	90.0%	90.0%	90.0%
"BBB-," "BBB" or "BBB+"	45.0%	50.0%	55.0%	60.0%	65.0%	70.0%	75.0%
"BB-," "BB" or "BB+"	35.0%	40.0%	45.0%	45.0%	50.0%	50.0%	50.0%
"B-," "B" or "B+"	20.0%	25.0%	30.0%	35.0%	35.0%	40.0%	40.0%
"CCC+" and below	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
NR	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

**D. If the Collateral Debt Security is a Project Finance Security, a future flow security, a market value CDO Obligation or a Synthetic Security (other than a Form Approved Synthetic Security), the recovery rate will be assigned by Standard & Poor's upon the Acquisition of such Security by the Issuer. A Form Approved Synthetic Security that is a Single Obligation Synthetic Security will have the recovery rate applicable to the related Reference Obligation.**

**E. If the Collateral Debt Security (other than a Corporate Guaranteed Security) is an ABS REIT Debt Security, the recovery rate for senior debt will be 40% and, for subordinated debt, assigned by Standard & Poor's upon the Acquisition of such security by the Issuer.**

**\*If the Collateral Debt Security is a Corporate Guaranteed Security, the recovery rate will be (a) if such Corporate Guaranteed Security is secured and not by its terms subordinate in right of payment, 47.5%, (b) if such Corporate Guaranteed Security is not secured and is not by its terms subordinate in right of payment, 37% and (c) otherwise, 21.5%.**

## Exhibit A

### Glossary of Certain Defined Terms

"ABS CDO Security" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) primarily on the cash flow from a portfolio of Asset-Backed Securities; *provided* that ABS CDO Securities shall also include Asset-Backed Securities that entitle the holders thereof to receive payments that depend on the cash flow from a credit swap linked to a notional portfolio of Asset-Backed Securities and from the cash flow from a repurchase agreement, interest rate swap, total return swap, investment contract, sovereign debt or other highly rated securities purchased with the proceeds of such Asset-Backed Securities.

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

"ABS Type Diversified Securities" means (1) Automobile Securities; (2) Credit Card Securities; (3) Student Loan Securities; and (4) any other type of Asset-Backed Securities that becomes a Specified Type after the Closing Date as described below and are designated as "ABS Type Diversified Securities" in connection therewith.

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

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

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

"Acquire" means any purchase or other acquisition by the Issuer of, or entry by the Issuer into, any Collateral Debt Security which, for purposes of determining the date of such acquisition or entry, shall be deemed to occur on the trade date of the transaction (which may be the date on which the Issuer has irrevocably committed to acquire or enter into that transaction) pursuant to which such Collateral Debt Security is acquired or entered into (or if a Hedging Short Credit Default Swap is terminated when the related Long Credit Default Swap remains in effect), assuming for these purposes, (x) settlement on the specified settlement date in accordance with the customary settlement procedures in the relevant market for such Collateral Debt Security and (y) the receipt by the Issuer of Class A-1 Fundings under the Class A-1 Swap in an amount sufficient to satisfy the Issuer's payment obligations under the transactions referred to in clause (x) on such settlement date; *provided* that (1) if such transaction does not settle by its customary settlement date, such Collateral Debt Security will be deemed not to have been "Acquired" by the Issuer for purposes of this definition until settlement is actually effected, (2) if at any time the Collateral Manager or the Trustee determines in good faith that the relevant transaction will not settle by its customary settlement date, then such Collateral Debt Security will, immediately upon such determination, be deemed not to have been "Acquired" by the Issuer for purposes of this definition until settlement is actually effected and (3) the term "Acquisition" shall be construed in accordance with the foregoing. For the avoidance of doubt, (i) entering into a Long Credit Default Swap or terminating a

Hedging Short Credit Default Swap results in an Acquisition and (ii) the simultaneous termination of a Hedged Long Credit Default Swap and the related Hedging Short Credit Default Swap does not result in an Acquisition.

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

"Adjusted Weighted Average Spread" means, as of any date of determination, the Weighted Average Spread calculated without regard to clause (B) of the definition thereof.

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

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

"Aggregate Amortized Cost" means (a) on the date of acquisition thereof by the Issuer, the cost of purchase thereof and (b) on any date thereafter, the present value of all remaining payments on such security discounted to such date of determination at a discount rate per annum equal to the internal rate of

return on such security as calculated by the Collateral Manager at the time of acquisition thereof by the Issuer.

"Aggregate Outstanding Amount" means, when used with respect to any of the Notes at any time, the aggregate principal amount of such Notes outstanding at such time. Except for purposes of any vote or consent of Noteholders and except as otherwise expressly provided herein, the Aggregate Outstanding Amount of Class A-1 Notes at any time shall not include the Aggregate Undrawn Amount.

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

"Aggregate Undrawn Amount" means with respect to any date of determination, the excess (if any) of: (A) U.S. \$975,000,000 over (B) the sum of (x) the Outstanding Class A-1 Funded Amount and (y) the Permanent Reduction Amount. For the avoidance of doubt, the Aggregate Undrawn Amount shall not be reduced by the amount of any funds deposited in a Class A-1 Swap Prefunding Account by the Class A-1 Swap Counterparty until such amounts are applied to a Permitted Use as a Class A-1 Funding, thereby increasing the Outstanding Class A-1 Funded Amount. At the close of business in New York on the Swap Period Termination Date the Aggregate Undrawn Amount will be permanently reduced to zero.

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

"Annual Period" means the period (i) from the Closing Date to (and including) the October 2007 Quarterly Distribution Date, and (ii) from (but excluding) the October Quarterly Distribution Date in a year to (and including) the October Quarterly Distribution Date in the next calendar year.

"Applicable Recovery Rate" means, with respect to any Collateral Debt Security on any Measurement Date, the lowest of (a) an amount equal to the percentage for such Collateral Debt Security set forth in the Moody's recovery rate matrix set forth in Part I of Schedule A hereto (or, in the case of a Single Obligation Synthetic Security that is a Form Approved Synthetic Security, 100% of such percentage for the related Reference Obligation or such other percentage, if any, assigned by Moody's upon request by the Issuer or the Collateral Manager on behalf of the Issuer) in (x) the table corresponding to the relevant Specified Type of CDO Obligation or Other ABS, (y) the column in such table setting forth the Moody's Rating of such Collateral Debt Security as of the date of issuance of such Collateral Debt Security and (z) the row in such table opposite the ratio (expressed as a percentage) of (i) the Issue of which such Collateral Debt Security is a part relative to (ii) the total capitalization of (including both debt and equity securities issued by) the relevant issuer of or obligor on such Collateral Debt Security, determined on the original issue date of such Collateral Debt Security; *provided* that (1) if the Collateral Debt Security is a Corporate Guaranteed Security, the recovery rate will be 30%, (2) if such Collateral Debt Security is an ABS REIT Debt Security, such amount shall be 40% (or 10% in the case of REIT Debt Securities—Health Care or REIT Debt Securities—Mortgage) and (3) if the Collateral Debt Security is a Synthetic Security (other than a Single Obligation Synthetic Security that is a Form

Approved Synthetic Security), the recovery rate will be that assigned by Moody's and (b) an amount equal to the percentage for such Collateral Debt Security set forth in the Standard & Poor's recovery rate matrix set forth in Part II of Schedule A hereto (or, in the case of a Single Obligation Synthetic Security that is a Form Approved Synthetic Security, 100% of such percentage for the related Reference Obligation) in (x) the applicable table and (y) the row in such table opposite the Standard & Poor's Rating of such Collateral Debt Security at the time of issuance and (z) for purposes of determining the "Calculation Amount" of a Defaulted Security or Deferred Interest PIK Bond, the column in such table below the then-current rating of the most senior Class of Notes outstanding and, for purposes of determining the "Standard & Poor's Recovery Rate" in connection with the Standard & Poor's Minimum Recovery Rate Test, the column in such table below the rating of the applicable Class of Notes; *provided* that if such Collateral Debt Security is a Synthetic Security (other than a Single Obligation Synthetic Security that is a Form Approved Synthetic Security), the recovery rate will be that assigned by Standard & Poor's.

"Asset-Backed Securities" means obligations or securities that entitle the holders thereof to receive payments that depend primarily on the cash flow from a specified pool of (a) financial assets, either static or revolving, that by their terms convert into cash within a finite time period, together with rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such securities or (b) real estate mortgages, either static or revolving, together with rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such securities; *provided* that, in the case of clause (b), such obligations or securities do not entitle the holders to a right to share in the appreciation in value of or the profits generated by the related real estate assets. The Specified Types of Asset-Backed Securities in which the Issuer may invest, subject to compliance with the Eligibility Criteria and to certain other limitations and restrictions described herein, are described under "Security for the Notes—Asset-Backed Securities."

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

"Available Redemption Funds" means Disposition Proceeds, together with the assignment or termination payments (if any) to be made to the Issuer upon termination of the Hedge Agreements and the Synthetic Securities and all cash and Eligible Investments maturing on or prior to the scheduled Redemption Date (including all interest income to be received prior to the Redemption Date) credited to the Accounts (other than the Hedge Counterparty Collateral Account, the Synthetic Security Issuer Account and the Class A-1 Swap Prefunding Account) and the proceeds of Synthetic Security Collateral in the CDS Reserve Account (other than amounts payable to the Total Return Swap Counterparty).

"Balance" means at any time, with respect to cash or Eligible Investments in any Account at such time, the aggregate of the (i) current balance of cash, demand deposits, time deposits, certificates of deposit, federal funds and money market funds; (ii) principal amount owing in respect of interest-bearing corporate and government securities, money market accounts, repurchase obligations and guaranteed reinvestment agreements; and (iii) purchase price (but not greater than the face amount) of non-interest-bearing government and corporate securities and commercial paper.



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

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

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

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

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

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

"Bespoke CDO Security" means Managed Bespoke Securities and Static Bespoke Securities.

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

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

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

"Cash Collateral Debt Securities" means any CDO Obligation or Other ABS.

"CDO Commercial Real Estate 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 such CDO Securities) on the cash flow from (and not the market value of) a portfolio of at least 80% by principal balance of commercial real estate assets (including, without limitation, CMBS, ABS REIT Debt Securities, mortgage loans, mezzanine loans and loan participations).

"CDO of CDO Security" means a CDO Obligation that entitles the holder 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 CDO Obligation) on the market value of, credit exposure to, or cash flow from, a portfolio of securities or other obligations with respect to which the aggregate principal balance of CDO Obligations permitted to be included therein under the terms thereof is greater than 35% of the aggregate principal balance of such portfolio.

"CDS Minimum Ratings" means (x) a short-term debt rating of at least "A-2" by Standard & Poor's or (if it has no short-term debt rating from Standard & Poor's) a long-term debt rating of at least "BBB+" by Standard & Poor's (provided that MLI is not required to satisfy such ratings if MLI posts collateral with the Trustee in the amount required under the ISDA Master Agreement and delivers an opinion of counsel satisfactory to Standard & Poor's regarding the ability of the Trustee to apply the posted collateral in the event of the bankruptcy of MLI), and (y) a short-term debt rating of at least "P-2" by Moody's (which, if such rating is "P-2," is not on credit watch for possible downgrade) or a long-term debt rating of at least "A2" by Moody's (which, if such rating is "A2," is not on credit watch for possible downgrade).

"CDS Principal Payments" means, on any date of determination following the effective date of the Credit Default Swap, the amount that the Reference Obligation Notional Amount will be reduced to reflect principal payments made under the related Reference Obligation.

"CDS Principal Proceeds" means the reduction in the Aggregate Principal Balance of the Credit Default Swaps resulting from (1) CDS Principal Payments on the Reference Obligations and (2) Dispositions of Credit Default Swaps (including through entry into Hedging Short Credit Default Swaps) but, in the case of a Disposition, only to the extent that the related reduction in the Principal Balance exceeds the amount of any Swap Termination Payment paid by the Issuer (other than from the Principal Collection Account or the Interest Collection Account) in connection with such Disposition and, for the

avoidance of doubt, without considering payment by the Issuer of a Physical Settlement Amount or a Principal Shortfall Amount to constitute a Disposition for this purpose. For this purpose, the Trustee shall assume that (i) any application of CDS Principal Proceeds is made first from the CDS Principal Proceeds with the earliest CDS Principal Receipt Date, and (ii) the amount of any Principal Proceeds transferred, at the discretion of the Collateral Manager, to the CDS Reserve Account will be deemed to be Specified CDS Principal Proceeds on the Determination Date for the second Quarterly Distribution Date following the Due Period in which such Principal Proceeds were received (if the amount thereof has not been reinvested in Credit Default Swaps, as determined in accordance with clause (i) with the date of receipt of Principal Proceeds treated as the CDS Principal Receipt Date).

"CDS Principal Receipt Date" means, in the case of a Disposition of a Long Credit Default Swap (including by entering into a Hedging Short Credit Default Swap) the trade date of such Disposition and, in the case of a CDS Principal Payment, the date on which such payment is made.

"CDS Required Rating" means (x) a short-term debt rating of "A-1+" by Standard & Poor's or (if it has no short-term debt rating from Standard & Poor's) a long-term debt rating of at least "AA-" by Standard & Poor's, and (y) a short-term debt rating of "P-1" by Moody's (and not on credit watch for downgrade) and a long-term debt rating of at least "Aa3" by Moody's (and, if such rating is "Aa3," is not on credit watch for downgrade).

"CDS Reserve Account Balance" means the aggregate principal balance of the Synthetic Security Collateral (including the Balance of Eligible investments therein) standing to the credit of the CDS Reserve Account, including amounts irrevocably designated for deposit in the CDS Reserve Account but excluding any portion thereof consisting of (i) investment income or the Total Return Swap LIBOR Payment or (ii) amounts irrevocably designated for withdrawal from the CDS Reserve Account for application as Principal Proceeds or for transfer to the Principal Collection Account.

"CDS Reserve Account Excess" means the amount, if any, by which (a) the sum of (i) the Aggregate Undrawn Amount *plus* (ii) the CDS Reserve Account Balance exceeds (b) the aggregate Remaining Exposure under all Credit Default Swaps.

"CDS Reserve Account Excess Withdrawal Amount" means the lesser of (i) the CDS Reserve Account Excess (determined as of the time specified in the Indenture) and (ii) the CDS Reserve Account Balance.

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

"Class" means each of the Class A-1 Notes, Class A-2A Notes, Class A-2B Notes, Class B Notes, Class C Notes, Class D Notes, Class E Notes, Class F Notes and Class G Notes.

"Class A Distribution Amount" means on any Quarterly Distribution Date an amount equal to the lesser of (i) the Remaining Class A Balance, and (ii) the sum of the Principal Proceeds available for

distribution under clause (7) of the Principal Proceeds Waterfall and 25% of the difference (if positive) between (x) the Interest Proceeds available for distribution under clause (20) of the Interest Proceeds Waterfall and (y) the Class A Preferred Security Return Amount and the Prior Period Accrued Amount.

"Class A Preferred Securities" means 64,000 Class A Preferred Securities, par value U.S.\$0.01 per security.

"Class A Preferred Security Return Amount" on any Quarterly Distribution Date means an amount equal to a payment (calculated in the manner that interest is calculated) at 6% per annum on the Remaining Class A Balance (as of the close of business on the immediately preceding Quarterly Distribution Date or, in the case of the first Quarterly Distribution Date, as of the Closing Date), calculated based on a year of 360 days and twelve 30-day months.

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

"Class A Sequential Pay Test" means, for so long as any Class A Notes remain outstanding (or if the Swap Period Termination Date has not occurred), a test satisfied on any Determination Date occurring on or after the Ramp-Up Completion Date if the Class A Sequential Pay Ratio on such Measurement Date is equal to or greater than 129.33%.

"Class A-1 Funding" means each purchase that the Class A-1 Swap Counterparty will make pursuant to the Class A-1 Swap of Class A-1 Notes from the Co-Issuers in exchange for the payment to the Issuer of the principal amount of the Class A-1 Notes so issued to fund a Permitted Use, including any excess deposited in the CDS Reserve Account (due to the applicability of the Minimum Funding Amount) of the amount funded over the amount required to make the relevant payment, but not including any amounts the Class A-1 Swap Counterparty deposited in a Class A-1 Swap Prefunding Account); *provided* that amounts deposited in a Class A-1 Swap Prefunding Account shall be deemed to be a Class A-1 Funding upon the application thereof to a Permitted Use.

"Class A-1 Note Parties" means the Class A-1 Swap Counterparty (which shall be deemed for this purpose to be a Holder of Class A-1 Notes with an Aggregate Outstanding Amount equal to the Aggregate Undrawn Amount) and the Holders of the Class A-1 Notes (which may include the Class A-1 Swap Counterparty).

"Class A-1 Principal Payment" means, with respect to any Quarterly Distribution Date, an amount equal to the lesser of (I) the Class A-1 Share of the Distributable Principal Proceeds and (II) an amount equal to the positive difference between (i) the Distributable Principal Proceeds and the CDS Reserve Account Excess Withdrawal Amount for the Due Period relating to such Quarterly Distribution Date and (ii) the Junior Note Reduction Amount.

"Class A-1 Rating Criteria" means criteria that will be satisfied on any date with respect to the Class A-1 Swap Counterparty if its short-term debt, deposit or similar obligations (or the obligations of the guarantor of its obligations) are on such date rated (a) "P-1" by Moody's (and not on credit watch for downgrade) and its long-term debt (or the long-term debt of the guarantor of its obligations) is rated at least "Aa3" by Moody's (and not on credit watch for downgrade) and (b) at least "A-1" by Standard & Poor's or (if it has no short-term debt rating from Standard & Poor's) its long-term debt is rated at least "A+" by Standard & Poor's.

"Class A-1 Reduction Amount" means, with respect to any Quarterly Distribution Date, an amount equal to the lesser of (i) the Specified Principal Proceeds or (on or after the last day of the Reinvestment Period) CDS Principal Proceeds for the Due Period and (ii) the positive difference between

(A) the Class A-1 Share multiplied by the Total Due Period Amortization for the Due Period and (B) the Class A-1 Principal Payment on the Quarterly Distribution Date.

"Class A-1 Share" means, for each Quarterly Distribution Date, the ratio (determined as of the close of business on the immediately preceding Quarterly Distribution Date or as of the Closing Date with respect to the first Quarterly Distribution Date) of (a) the sum of (i) the Outstanding Class A-1 Funded Amount and (ii) the Aggregate Undrawn Amount to (b) the sum of (i) the aggregate outstanding principal amount of the Notes (other than the Class A-1 Notes) *plus* (ii) the Outstanding Class A-1 Funded Amount and the Aggregate Undrawn Amount determined pursuant to clause (a)(i) and (ii) above.

"Class A-1 Swap Availability Fee" means the fee payable pursuant to the Class A-1 Swap by the Issuer to the Class A-1 Swap Counterparty on the daily average Aggregate Undrawn Amount under the Class A-1 Swap, for each day from and including the Closing Date to but excluding the Swap Period Termination Date at the Class A-1 Swap Availability Fee Rate.

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

"Class A-1 Swap Prefunding Account Eligible Investments" means any investment which the ISDA Master Agreement (or the related Credit Support Annex) permits the Class A-1 Swap Counterparty to deposit in the Class A-1 Swap Prefunding Account.

"Class A-1 Swap Prefunding Amount" means the amount required to be delivered by the Class A-1 Swap Counterparty to the Class A-1 Swap Prefunding Account pursuant to the Class A-1 Swap if the Class A-1 Swap Counterparty does not satisfy the Class A-1 Rating Criteria and fails to take one of the other actions necessary to satisfy the Class A-1 Rating Criteria within the required period.

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

"Class B Preferred Securities" means 30,000 Class B Preferred Securities, par value U.S.\$0.01 per security.

"Class B Pro Rata Principal Payment Cap" means, on any Quarterly Distribution Date, an amount equal to (a) the Junior Note Reduction Amount available in accordance with the Pro Rata Payment Priority to make payments under clause (II)(2) of the Pro Rata Payment Priority *multiplied by* (b) the Aggregate Outstanding Amount of the Class B Notes (after giving effect to all payments of principal thereof on such Quarterly Distribution Date, from Interest Proceeds and from Principal Proceeds prior to clause (5) of the Principal Proceeds Waterfall) *divided by* (c) the Aggregate Outstanding Amount of the Class B Notes, Class C Notes, Class D Notes, Class E Notes, Class F Notes and Class G Notes (after giving effect to all payments of principal thereof on such Quarterly Distribution Date from Interest Proceeds and from Principal Proceeds prior to clause (5) of the Principal Proceeds Waterfall).

"Class C Pro Rata Principal Payment Cap" means, on any Quarterly Distribution Date, an amount equal to (a) the Junior Note Reduction Amount available in accordance with the Pro Rata Payment Priority to make payments under clause (II)(3) the Pro Rata Payment Priority *multiplied by* (b) the Aggregate Outstanding Amount of the Class C Notes (after giving effect to all payments of principal thereof on such Quarterly Distribution Date, from Interest Proceeds and from Principal Proceeds prior to clause (5) of the Principal Proceeds Waterfall) *divided by* (c) the Aggregate Outstanding Amount of the Class C Notes, Class D Notes, Class E Notes, Class F Notes and Class G Notes (after giving effect to all payments of principal thereof on such Quarterly Distribution Date, from Interest Proceeds and from Principal Proceeds prior to clause (5) of the Principal Proceeds Waterfall).

"Class D Pro Rata Principal Payment Cap" means, on any Quarterly Distribution Date, an amount equal to (a) the Junior Note Reduction Amount available in accordance with the Pro Rata Payment Priority to make payments under clause (II)(4) of the Pro Rata Payment Priority *multiplied by* (b) the Aggregate Outstanding Amount of the Class D Notes (after giving effect to all payments of principal thereof on such Quarterly Distribution Date, from Interest Proceeds and from Principal Proceeds prior to clause (5) of the Principal Proceeds Waterfall) *divided by* (c) the Aggregate Outstanding Amount of the Class D Notes, Class E, Class F Notes and Class G Notes (after giving effect to all payments of principal thereof on such Quarterly Distribution Date, from Interest Proceeds and from Principal Proceeds prior to clause (5) of the Principal Proceeds Waterfall).

"Class D Unpaid Interest Amount" means any interest on the Class D Notes *plus* accrued interest thereon at the Class D Rate which is not paid as a result of the operation of the Priority of Payments on any Quarterly Distribution Date on which any Class A Notes, Class B Notes or Class C Notes are outstanding (or the Swap Period Termination Date has not occurred).

"Class E Pro Rata Principal Payment Cap" means, on any Quarterly Distribution Date, an amount equal to (a) the Junior Note Reduction Amount available in accordance with the Pro Rata Payment Priority to make payments under clause (II)(5) of the Pro Rata Payment Priority means, on any Quarterly Distribution Date, multiplied by (b) the Aggregate Outstanding Amount of the Class E Notes (after giving effect to all payments of principal thereof on such Quarterly Distribution Date, from Interest Proceeds and from Principal Proceeds prior to clause (5) of the Principal Proceeds Waterfall) divided by (c) the Aggregate Outstanding Amount of the Class E Notes, Class F Notes and Class G Notes (after giving effect to all payments of principal thereof on such Quarterly Distribution Date, from Interest Proceeds and from Principal Proceeds prior to clause (5) of the Principal Proceeds Waterfall).

"Class E Unpaid Interest Amount" means any interest on the Class E Notes *plus* accrued interest thereon at the Class E Rate which is not paid as a result of the operation of the Priority of Payments on any Quarterly Distribution Date on which any Class A Notes, Class B Notes, Class C Notes or Class D Notes are outstanding (or the Swap Period Termination Date has not occurred).

"Class F Pro Rata Principal Payment Cap" means, on any Quarterly Distribution Date, an amount equal to (a) the Junior Note Reduction Amount available in accordance with the Pro Rata Payment Priority to make payments under clause (II)(6) of the Pro Rata Payment Priority *multiplied by* (b) the Aggregate Outstanding Amount of the Class F Notes (after giving effect to all payments of principal thereof on such Quarterly Distribution Date, from Interest Proceeds and from Principal Proceeds prior to clause (5) of the Principal Proceeds Waterfall) *divided by* (c) the Aggregate Outstanding Amount of the Class F Notes and the Class G Notes (after giving effect to all payments of principal thereof on such Quarterly Distribution Date, from Interest Proceeds and from Principal Proceeds prior to clause (5) of the Principal Proceeds Waterfall).

"Class F Unpaid Interest Amount" means any interest on the Class F Notes *plus* accrued interest thereon at the Class F Rate which is not paid as a result of the operation of the Priority of Payments on any Quarterly Distribution Date on which any Class A Notes, Class B Notes, Class C Notes, Class D Notes or Class E Notes are outstanding (or the Swap Period Termination Date has not occurred).

"Class G Pro Rata Principal Payment Cap" means, on any Quarterly Distribution Date, an amount equal to the Junior Note Reduction Amount available in accordance with the Pro Rata Payment Priority to make payments under clause (II)(7) of the Pro Rata Payment Priority.

"Class G Unpaid Interest Amount" means any interest on the Class G Notes *plus* accrued interest thereon at the Class G Rate which is not paid as a result of the operation of the Priority of Payments on any Quarterly Distribution Date on which any Class A Notes, Class B Notes, Class C Notes, Class D Notes, Class E Notes or Class F Notes are outstanding (or the Swap Period Termination Date has not occurred).

"CLO Securities" means a CDO Obligation the terms of which permit more than 50% of the underlying portfolio of assets to consist of investment in (or credit exposure to) commercial and industrial bank loans.

"Closing Costs" means, without limitation, the legal fees and expenses of counsel to the Co-Issuers, the Collateral Manager, the Placement Agent and the Initial Purchaser, the expenses, fees and commissions incurred in connection with the Acquisition of the Collateral Debt Securities for inclusion in the Collateral on or prior to the Closing Date, the expenses of offering of the Securities (including fees payable to the Initial Purchaser and the Placement Agent in connection with the offering of the Securities).

"CMBS Conduit Securities" means Asset-Backed Securities (A) issued by a single-seller or multi-seller conduit under which the holders of such Asset-Backed Securities have recourse to a specified 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 primarily (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from a pool of commercial mortgage loans made to finance the acquisition, construction and improvement of properties leased to corporate tenants (or on the cash flow from such leases). They generally have the following characteristics: (1) the commercial mortgage loans or leases have varying contractual maturities; (2) the commercial mortgage loans are secured by real property purchased or improved with the proceeds thereof (or to refinance an outstanding loan the proceeds of which were so used); (3) the leases are secured by leasehold interests; (4) the commercial mortgage loans or leases are obligations of a relatively limited number of obligors and accordingly represent a relatively undiversified pool of obligor credit risk; (5) payment thereof can vary substantially from the contractual payment schedule (if any), with prepayment of individual loans or termination of leases depending on numerous factors specific to the particular obligors or lessees and upon whether, in the case of loans bearing interest at a fixed rate, such loans

include an effective prepayment premium; and (6) the creditworthiness of such corporate tenants is the primary factor in any decision to invest in these securities.

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

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

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

"Collateral Debt Security" means (i) any CDO Obligation, (ii) any Other ABS, (iii) any Synthetic Security (including a Credit Default Swap) each Reference Obligation of which, and each Deliverable Obligation under which, is a CDO Obligation or Other ABS or (iv) any Deliverable Obligation that is a CDO Obligation or Other ABS that would qualify to be included as a Collateral Debt Security hereunder if purchased directly by the Issuer.

"Collateralization Event" means, in respect of any Hedge Counterparty, the occurrence of any event defined in the applicable Hedge Agreement as a "Collateralization Event" thereunder.

"Container Leasing Securities" means Asset-Backed Securities (other than Aircraft Lease Securities and Restaurant and Food Services Securities) that entitle the holders thereof to receive payments that depend primarily (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from leases and subleases of containers to commercial and industrial customers, generally having the following characteristics: (1) the leases or subleases have varying contractual maturities; (2) the leases or subleases are obligations of a relatively limited number of obligors and accordingly represent an undiversified pool of obligor credit risk; (3) the repayment stream on such leases or subleases is primarily determined by a contractual payment schedule, with early termination of such leases or subleases predominantly



dependent upon the disposition to a lessee, sublessee or third party of the underlying containers; and (4) such leases or subleases typically provide for the right of the lessee or sublessee to purchase the containers for their stated residual value, subject to payments at the end of lease term for excess usage.

"Controlling Class" means the Class A-1 Notes Parties or, if there is no Outstanding Class A-1 Funded Amount and the Swap Period Termination Date has occurred, *then* the Class A-2A Notes or, if there are no Class A-2A Notes outstanding, *then* the Class A-2B Notes or, if there are no Class A-2B Notes outstanding, *then* the Class B Notes or, if there are no Class B Notes outstanding, *then* the Class C Notes or, if there are no Class C Notes outstanding, *then* the Class D Notes, or, if there are no Class D Notes outstanding, *then* the Class E Notes or, if there are no Class E Notes outstanding, *then* the Class F Notes or, if there are no Class F Notes outstanding, then the Class G Notes.

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

"Corporate Debt Security" means any outstanding debt security, whether secured or unsecured, that on the date of Acquisition thereof by the Issuer, (i) if subordinated by its terms, is subordinated only to indebtedness for borrowed money, trade claims, capitalized leases or other similar obligations, (ii) is publicly issued or privately placed, (iii) is issued by an issuer incorporated or organized under the laws of the United States or any state thereof or by a Qualifying Foreign Obligor and (iv) is not a CDO Obligation or Other ABS.

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

"Credit Card Securities" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend primarily (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 Default Swap Counterparty" means MLI, in its capacity as buyer or seller of credit protection under the Credit Default Swaps entered into under the ISDA Master Agreement, together with its successors and assigns in such capacity, or any other CDS Replacement Counterparty that serves in an equivalent capacity hereunder.

"Credit Event Notice" means an irrevocable written notice from the buyer of protection to the seller of protection that describes a Credit Event that occurred during the Notice Delivery Period. A Credit Event Notice must contain a description in reasonable detail of the facts relevant to the determination that a Credit Event has occurred. The Credit Event that is the subject of the Credit Event Notice need not be continuing on the date the Credit Event Notice is effective.

"Credit Improved Security" means any Collateral Debt Security that the Collateral Manager believes, subject to the Standard of Care in the Collateral Management Agreement (as of the date of the Collateral Manager's determination based upon currently available information), has, since such Collateral Debt Security was purchased by the Issuer, improved in credit quality or value which improvement may (but need not) be evidenced by one of the following: (a) such Collateral Debt Security has been upgraded or put on a watch list for possible upgrade by any of the Rating Agencies, (b) the issuer of such Collateral Debt Security has shown improved financial results, (c) the obligor of or insurer of such Collateral Debt Security has raised significant equity capital or has raised other capital that in the Collateral Manager's judgment has improved the liquidity or credit standing of such obligor or insurer, (d) in the case of an Asset-Backed Security, an improvement in the performance of the underlying pool of assets or an increase in the level of subordination or (e) (1) in the case of a Collateral Debt Security that is rated "Aaa" by Moody's or "AAA" by Standard & Poor's, such Collateral Debt Security has decreased its spread over the applicable benchmark by an amount exceeding 0.10%, (2) in the case of a Collateral Debt Security that is rated "Aa1," "Aa2" or "Aa3" by Moody's or "AA+," "AA" or "AA " by Standard & Poor's, such Collateral Debt Security has decreased its spread over the applicable benchmark by an amount exceeding 0.10%, (3) in the case of a Collateral Debt Security that is rated "A1," "A2" or "A3" by Moody's or "A+," "A" or "A " by Standard & Poor's, such Collateral Debt Security has decreased its spread over the interest rate on the applicable benchmark by an amount exceeding 0.15% and (4) in the case of a Collateral Debt Security that is rated "Baa1," "Baa2," "Baa3," "Ba1," "Ba2," or "Ba3" by Moody's or "BBB+," "BBB," "BBB ," "BB+," "BB," or "BB-" by Standard & Poor's, such Collateral Debt Security has decreased its spread over the applicable benchmark by an amount exceeding 0.25%, and; *provided* that, during any Limited Discretion Period a Collateral Debt Security shall not be a Credit Improved Security unless either (a) such Collateral Debt Security has been upgraded by Moody's at least one rating subcategory since it was acquired by the Issuer or put on a watch list by Moody's for possible upgrade or (b) such Collateral Debt Security has experienced a decrease in credit spread of 10% or more of the credit spread at which such Collateral Debt Security was purchased by the Issuer, determined by reference to an applicable index selected by the Collateral Manager.

"Credit Risk Security" means any Collateral Debt Security that the Collateral Manager believes, subject to the Standard of Care in the Collateral Management Agreement (as of the date of the Collateral Manager's determination based upon currently available information), has, since such Collateral Debt Security was purchased by the Issuer, a significant risk of declining in credit quality or value (or, there has occurred, or is expected to occur, a deterioration in the quality of the underlying pool of assets) or, with a lapse of time, a significant risk of becoming a Defaulted Security; *provided* that, during any Limited Discretion Period a Collateral Debt Security shall not be a Credit Risk Security unless either (a) such Collateral Debt Security has been downgraded by Moody's at least one or more rating subcategories since it was acquired by the Issuer or placed by Moody's on a watch list with negative implications since the date on which such Collateral Debt Security was purchased by the Issuer or (b) such Collateral Debt Security has experienced an increase in credit spread of 10% or more of the credit spread at which such Collateral Debt Security was purchased by the Issuer, determined by reference to an applicable index selected by the Collateral Manager.

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

"Current Spread" means, as of any date of determination, (a) with respect to any Floating Rate Security, the stated spread above or below the London interbank offered rate or other applicable floating rate index for such Floating Rate Security at which interest accrues on such Floating Rate Security and (b) with respect to any Deemed Floating Rate Security, the Deemed Floating Rate *plus* the Deemed Floating Spread, each related to such Deemed Floating Rate Security. For the purpose of this definition, in the case of a Non-LIBOR Floating Rate Security or a Hybrid Security after the Reset Date, the Collateral Manager shall determine (and inform the Issuer and the Trustee of) the Current Spread as the difference between the applicable interest rate payable on such Collateral Debt Security and LIBOR, with LIBOR to be determined as set forth in the definition of LIBOR or, if the Collateral Manager determines that it more accurately reflects the rate applicable to the security, to be determined as if such Floating Rate Security or Hybrid Security after the Reset Date were a Note and using an Interest Period based on the terms of such Floating Rate Security or the Underlying Hybrid Collateral for such Hybrid Security after the Reset Date.

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

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

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

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

"Deemed Fixed Spread" means, with respect to a Deemed Fixed Rate Security, the spread above or below LIBOR on the Floating Rate Security that comprises such Deemed Fixed Rate Security less the amount of such spread, if any, required to be paid to the relevant Hedge Counterparty under the applicable Deemed Fixed Rate Hedge Agreement.

"Deemed Fixed/Floating Rate Hedge Agreement" means a Deemed Fixed Rate Hedge Agreement or a Deemed Floating Rate Hedge Agreement.

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

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

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

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

"Default" means any Event of Default or any occurrence that, with notice or the lapse of time or both, would become an Event of Default.

"Defaulted Security" means any Collateral Debt Security:

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

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

(3) as to which the Collateral Manager knows the issuer thereof is in default (without giving effect to any applicable grace period or waiver) as to payment of principal and/or interest on another obligation (and such payment default has not been cured through the payment in cash of principal and interest then due and payable or waived by all of the holders of such security) which is senior or *pari passu* in right of payment to such Collateral Debt Security and which obligation and such Collateral Debt Security are secured by common collateral; *provided* that a Collateral Debt Security shall not constitute a "Defaulted Security" under this clause (3) if (1) the Collateral Manager has notified the Trustee and the Rating Agencies in writing of its decision not to treat such Collateral Debt Security as a Defaulted Security and (2) such decision satisfies the Rating Condition with respect to Standard & Poor's;

(4) as to which any bankruptcy, insolvency or receivership proceeding has been initiated in connection with the issuer thereof, or there has been proposed or effected any distressed exchange or other debt restructuring pursuant to which the issuer thereof has offered the holders thereof a new security or package of securities that, the Collateral Manager believes, subject to the standard of care in the Collateral Management Agreement, amounts to a diminished financial obligation or is intended solely to enable the relevant obligor to avoid defaulting in the performance of its payment obligations under such Collateral Debt Security; *provided* that a Collateral Debt Security shall not constitute a "Defaulted Security" under this clause (4) if such Collateral Debt Security was Acquired in a distressed exchange or other debt restructuring and complies with the requirements of the definition of "Collateral Debt Security" and satisfies paragraphs (1), (3), (4), (6) through (11) (except with respect to the prohibition on a Credit Risk Security), (12) through (17), (20) and (34) of the Eligibility Criteria at the time of Acquisition thereof;

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

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

(7) that is a Defaulted Synthetic Security;

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

(9) that is a Deliverable Obligation that would not satisfy paragraphs (1), (3), (4), (6) through (11) (except with respect to the prohibition on a Credit Risk Security), (12) through (17), (20) and (34) of the Eligibility Criteria at the time such Deliverable Obligation is delivered to the Issuer; or

(10) that is a Deferred Interest PIK Bond, with respect to which the payment of interest either in whole or in part has been deferred and/or capitalized (and not subsequently paid) in an amount equal to the amount of interest payable for a period equal to the lesser of (1) at least two interest accrual periods or (2) at least twelve consecutive months.

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

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

"Defaulted Synthetic Termination Payment" means, with respect to any Synthetic Security, any termination payment (and any accrued interest thereon) payable by the Issuer pursuant to such Synthetic Security as a result of an "Event of Default" or "Termination Event" (other than an "Illegality" or "Tax Event") as to which the relevant Synthetic Security Counterparty is the "Defaulting Party" or the sole "Affected Party" (each as defined in such Underlying Instruments). For the avoidance of doubt, any

unpaid amounts owed to the Synthetic Security Counterparty independent of any such termination payment shall be deemed not to be part of the Defaulted Synthetic Termination Payment.

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

"Deferred Interest PIK Bond" means a PIK Bond (other than a Defaulted Security) (or any Synthetic Security the Reference Obligation of which is a PIK Bond) with respect to which payment of interest either in whole or in part has been deferred or capitalized in an amount equal to the amount of interest payable in respect of the lesser of (a) one payment period and (b) a period of six months, but only until such time as payment of interest on such PIK Bond (or any Synthetic Security the Reference Obligation of which is a PIK Bond) has resumed and all capitalized and deferred interest has been paid in accordance with the terms of the Underlying Instruments.

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

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

"Designated Maturity" means (a) with respect to Class A-1 Notes (i) for the first Interest Period for a Class A-1 Funding made under the Class A-1 Swap, the number of calendar days from and including the relevant date of the Class A-1 Funding to, but excluding, the Quarterly Distribution Date immediately following the Interest Period in which such Class A-1 Funding is made, (ii) for each Interest Period after the first Interest Period for a Class A-1 Funding made under the Class A-1 Swap (other than the Interest Period ending in October 2041), three months and (iii) for the Interest Period ending in October 2041, the number of calendar days from, and including, the first day of such Interest Period to, but excluding, the final Quarterly Distribution Date and (b) with respect to each other Class of Notes (i) for the first Interest Period, the number of calendar days from and including the Closing Date to but excluding the first Quarterly Distribution Date, (ii) for each Interest Period after the first Interest Period (other than the Interest Period ending on the Distribution Date in October 2041), three months and (iii) for the Interest

Period ending on the Quarterly Distribution Date in October 2041, the number of calendar days from, and including, the first day of such Interest Period to but excluding the final Quarterly Distribution Date.

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

"Discount Haircut Amount" means, with respect to any Discount Security, an amount equal to the greater of (a) zero and (b)(i) the principal amount or certificate balance of such Collateral Debt Security *minus* (ii) the cost to the Issuer (exclusive of accrued interest) of such Discount Security *minus* (iii) an amount equal to (A) all principal payments received by the Issuer with respect to such Discount Security *multiplied by* (B) a fraction the numerator of which is the cost to the Issuer (exclusive of accrued interest) and the denominator of which is the principal amount or certificate balance of such Discount Security at the time of the Acquisition thereof by the Issuer.

"Discount Security" means a Collateral Debt Security (other than a Hedging Short Credit Default Swap or Hedged Long Credit Default Swap) purchased at a cost to the Issuer (exclusive of accrued interest) of: (x) if such Collateral Debt Security is a Floating Rate Security and is publicly rated "Aa3" or higher by Moody's at the time it is Acquired by the Issuer, less than 92.0% of the principal amount (or notional amount in the case of a Synthetic Security) thereof; *provided* that a Collateral Debt Security shall cease to constitute a "Discount Security" for purposes of this clause (x) if the fair market value thereof equals or exceeds 95.0% of its outstanding principal amount (or notional amount in the case of a Synthetic Security) for four consecutive biweekly valuation dates following the initial valuation date on which such percentage was equaled or exceeded; (y) if such Collateral Debt Security is a Fixed Rate Security and is publicly rated "Aa3" or higher by Moody's at the time it is Acquired by the Issuer, less than 85.0% of the principal amount (or notional amount in the case of a Synthetic Security) thereof; *provided* that a Collateral Debt Security shall cease to constitute a "Discount Security" for purposes of this clause (y) if the fair market value thereof equals or exceeds 90.0% of its outstanding principal amount (or notional amount in the case of a Synthetic Security) for four consecutive biweekly valuation dates following the initial valuation date on which such percentage was equaled or exceeded; and (z) for any Collateral Debt Security not described in clauses (x) and (y), less than 75.0% of the principal amount thereof; *provided* that a Collateral Debt Security shall cease to constitute a "Discount Security" for purposes of this clause (z) if the fair market value thereof equals or exceeds 85.0% of its outstanding principal amount (or notional amount in the case of a Synthetic Security) for four consecutive biweekly valuation dates following the initial valuation date on which such percentage was equaled or exceeded; *provided*, that in the case of a Synthetic Security, for purposes of this definition only, the fair market value thereof shall be a percentage determined by the Collateral Manager, subject to the standard of care in the Collateral Management Agreement, which determination shall take into account (A) any upfront payment received by the Issuer from, or paid by the Issuer to, the related Synthetic Security Counterparty upon entry into such Synthetic Security, (B) the reference price of such Synthetic Security, (C) any adjustment to the premium payable by the buyer of protection under such Synthetic Security that has been made to reflect the fact that the related Reference Obligation is trading at a price below par and (D) the expected amortization schedule of the Reference Obligation.

"Disposition" means any sale, termination, liquidation, assignment, participation, transfer, novation or other disposition of a Collateral Debt Security (including, in the case of a Credit Default Swap or Synthetic Security, any Acquisition of a related Hedging Short Credit Default Swap or equivalent hedging Synthetic Security with respect thereto) which, for purposes of determining the date of such disposition by the Issuer of any Collateral Debt Security, shall be deemed to occur on the trade date of the transaction pursuant to which such Collateral Debt Security is disposed of, assuming for these purposes, (x) settlement on the specified settlement date in accordance with the customary settlement procedures in the relevant market for such Collateral Debt Security and (y) the receipt by the Issuer of the Proceeds of such Disposition from the relevant counterparty to such transaction on such settlement date; *provided* that (1) if such transaction does not settle by its customary settlement date, such Collateral Debt Security will be deemed not to have been "Disposed" of by the Issuer for purposes of this definition until settlement is actually effected, (2) if at any time the Collateral Manager or the Trustee determines in good

faith that the relevant transaction will not settle by its customary settlement date, then such Collateral Debt Security will, immediately upon such determination, be deemed not to have been "Disposed" of by the Issuer for purposes of this definition until settlement is actually effected and (3) the terms "Dispose" and "Disposition" shall be construed in accordance with the foregoing.

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

"Distributable Principal Proceeds" means the Principal Proceeds or (prior to the end of the Reinvestment Period) the Specified Principal Proceeds, after application of any amounts pursuant to clauses (1), (2) and (3) of the Principal Proceeds Waterfall.

"Due Period" means with respect to any Quarterly Distribution Date, each period from, but excluding, the last calendar day of the month prior to the immediately preceding Quarterly Distribution Date to, and including, the last calendar day of the month immediately prior to such Quarterly Distribution Date, except that (a) the initial Due Period will commence on, and include, the Closing Date, (b) the final Due Period will end on, and include, the day preceding the Stated Maturity of the Notes and (c) the last day of each Due Period may be no earlier than the last calendar day of the month of the calendar month preceding the applicable Quarterly Distribution Date or, if such date is not a Business Day, the immediately following Business Day (and if the last day of a Due Period is adjusted pursuant to this clause (c), the succeeding Due Period shall commence on the day immediately following the last day of such Due Period). Amounts that would otherwise have been payable in respect of a Pledged Collateral Debt Security on the last day of a Due Period but for such day's (or, in the case of a Credit Default Swap, the Reference Obligation Payment Date) not being a designated business day in the Underlying Instruments or a Business Day under the Indenture shall be considered included in collections received during such Due Period. The Quarterly Distribution Date relating to any Due Period will be the Quarterly Distribution Date that next succeeds the last day of such Due Period. With respect to the Credit Default Swaps, amounts that are received prior to the Quarterly Distribution Date following a Due Period, shall be considered included in collections received during such Due Period.

"Eligible Dealer" means a counterparty which meets the following criteria: (1) it has an executed 1992 ISDA Master Agreement with the Credit Default Swap Counterparty or agrees to execute promptly an 1992 ISDA Master Agreement with the Credit Default Swap Counterparty with terms acceptable to the Credit Default Swap Counterparty, (2) it agrees to assume all of the Issuer's obligations under each Credit Default Swap (as modified to conform to the MBS PAUG Credit Default Swap and CDO PAUG Credit Default Swap published by ISDA that relates to the applicable Reference Obligation, if applicable to a credit default swap transaction), (3) it satisfies the definition of "Dealer" (if any), in the applicable Confirmation, and (4) it satisfies the Credit Default Swap Counterparty's legal and credit criteria in accordance with the credit and legal policies of the Credit Default Swap Counterparty in effect at the time; *provided* that in each case on the date of and following the transfer of each Credit Default Swap to be governed under the executed ISDA Master Agreement between the Credit Default Swap Counterparty and the replacement seller (a) the Credit Default 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 ISDA Master Agreement greater than the amount in respect of which the Credit Default Swap Counterparty would have been required to pay in the absence of such transfer; (b) the Credit Default 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 ISDA 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 (and as defined in) the ISDA 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 "Aa2" by Moody's (and, if such rating is "Aa2," such rating is not on watch for possible downgrade by Moody's) and not less than "AA+" by Standard & Poor's in the case of long-term debt obligations, or "P-1" by Moody's (and such rating is not on watch for possible downgrade by Moody's), "A-1+" by Standard & Poor's (or "A-1" by Standard & Poor's with respect to overnight investments offered by the Bank, so long as the Bank is the Trustee) in the case of commercial paper and short term debt obligations including time deposits; *provided* that (i) in each case, the issuer thereof must have at the time of such investment a long-term credit rating of not less than "A1" by Moody's (and, if such rating is "A1," such rating is not on watch for possible downgrade by Moody's) and (ii) in the case of commercial paper and short-term debt obligations with a maturity of longer than 91 days, the issuer thereof must also have at the time of such investment a long-term credit rating of not less than "AA+" by Standard & Poor's and not less than "Aa2" by Moody's (and, if such rating is "Aa2," such rating is not on watch for possible downgrade by Moody's);
- (d) unleveraged repurchase obligations with respect to (i) any security described in clause (b) above or (ii) any other Registered obligation issued or guaranteed by an agency or instrumentality of the United States (in each case without regard to the stated maturity of such security), in either case entered into with a U.S. Federal or state depository institution or trust company (acting as principal) described in clause (c) above or entered into with a corporation (acting as principal) whose long-term rating is not less than "Aa2" by Moody's (and, if such rating is "Aa2," such rating is not on watch for possible downgrade by Moody's) and not less than "AA+" by Standard & Poor's or whose short term credit rating is "P-1" by Moody's (and such rating is not on watch for possible downgrade by Moody's) and "A-1+" by Standard & Poor's at the time of such investment; *provided* that (i) in each case, the issuer thereof must have at the time of such investment a long-term credit rating of not less than "Aa2" by Moody's (and, if such rating is "Aa2," such rating is not on watch for possible downgrade by Moody's) and (ii) if such security has a maturity of longer than 91 days, the issuer thereof must also have at the time of such investment a long-term credit rating of not less than "AA+" by Standard & Poor's;

- (e) Registered debt securities bearing interest or sold at a discount issued by any corporation incorporated under the laws of the United States or any state thereof that have a credit rating of not less than "Aa2" by Moody's (and, if such rating is "Aa2," such rating is not on watch for possible downgrade by Moody's) and not less than "AA+" by Standard & Poor's;
- (f) commercial paper or other short-term obligations with a maturity of not more than 183 days from the date of issuance and having at the time of such investment a credit rating of "P-1" by Moody's (and such rating is not on watch for possible downgrade by Moody's) and not less than "A-1" by Standard & Poor's; *provided* that if such security has a maturity of longer than 91 days, the issuer thereof must also have at the time of such investment a long-term credit rating of not less than "AA+" by Standard & Poor's and not less than "Aa2" by Moody's (and, if such rating is "Aa2," such rating is not on watch for possible downgrade by Moody's);
- (g) Registered reinvestment agreements issued or unconditionally guaranteed by any bank, or a Registered reinvestment agreement issued or unconditionally guaranteed by any insurance company or by any other corporation or entity (if treated as debt by the issuer), in each case, that (i) has a credit rating of "P-1" by Moody's (and such rating is not on watch for possible downgrade by Moody's) and "A-1+" by Standard & Poor's; or (ii) the issuer or guarantor thereof has at the time of such investment a long-term credit rating of not less than "AA+" by Standard & Poor's and not less than "Aa1" by Moody's (and, if such rating is "Aa1," such rating is not on watch for possible downgrade by Moody's); and
- (h) interests in any money market fund or similar investment vehicle having at the time of investment therein the highest credit rating assigned by Moody's and a rating of "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) or (h)), with a stated maturity or, in the case of clause (g), a withdrawal date (in each case giving effect to any applicable grace period) no later than the Business Day immediately preceding the Quarterly 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; (i) any security that the Collateral Manager determines to be subject to substantial non-credit-related risk; or (j) any Interest Only Securities; *provided* that notwithstanding the foregoing, (i) when used in relation to a Synthetic Security Counterparty Account, Eligible Investments shall include any investments approved in writing by the related Synthetic Security Counterparty and (ii) Eligible Investments with a maturity greater than one Business Day and a rating of "A-1" by S&P may only be held by the Issuer in an amount up to 20% of the Aggregate Outstanding Amount of the Notes (including for this purpose the Aggregate Undrawn Amount). Eligible Investments may be obligations of, and may be purchased from, the Trustee and its affiliates, and may include obligations for which the Trustee or an affiliate thereof receives compensation for providing services.

"Emerging Market Issuer" means a sovereign or non-sovereign issuer organized in a country that is in Latin America, Asia, Africa, Eastern Europe or the Caribbean or in a country the Dollar-denominated obligations of which are rated lower than "Aa2" by Moody's (or are rated "Aa2" and are on watch for possible downgrade by Moody's) and which has a foreign currency rating lower than "AA" by

Standard & Poor's; *provided* that an issuer of Asset-Backed Securities organized in a Special Purpose Vehicle Jurisdiction shall not be an Emerging Market Issuer for purposes hereof if the underlying collateral of such Asset-Backed Securities consists solely of (x) obligations of obligors located in the United States and (y) obligations of Qualifying Foreign Obligor.

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

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

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

"Excess CDS Proceeds Amount" means, with respect to any Quarterly Distribution Date, an amount equal to (i) the Class A-1 Share *multiplied* by the Distributable Principal Proceeds *minus* (ii) the Aggregate Undrawn Amount.

"Expense Year" means each 12-month period commencing on the Business Day following a Quarterly Distribution Date (or in the case of the first Expense Year, commencing on the Closing Date) and ending on the Quarterly Distribution Date in the same month in the following year (or, in the case of the first Expense Year, ending on the October 2007 Quarterly Distribution Date).

"Failure to Pay Interest" means, with respect to a CDO Obligation, the occurrence of an Interest Shortfall or Interest Shortfalls that in the aggregate exceeds a threshold specified in such CDO PAUG Credit Default, which is expected to be equal to U.S.\$10,000.

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

"Fixed Rate" means the rate specified as such in the confirmation for the Credit Default Swap or other Synthetic Security.

"Fixed Rate Excess" as of any Measurement Date will equal a fraction (expressed as a percentage) the numerator of which is equal to the product of (a) the greater of zero and the excess, if any, of the Weighted Average Coupon for such Measurement Date over 5.5% and (b) the Aggregate Principal

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

"Fixed Rate Security" means any Collateral Debt Security other than (i) a Floating Rate Security, (ii) a Deemed Floating Rate Security or (iii) a Credit Default Swap.

"Floating Amount Event" means a Failure to Pay Principal, Writedown or Interest Shortfall.

"Floating Rate Security" means any Collateral Debt Security (other than a Deemed Fixed Rate Security) that is expressly stated to bear interest based on a floating rate index for Dollar denominated obligations commonly used as a reference rate in the United States or the United Kingdom. A Defeased Synthetic Security will be treated as a Floating Rate Security (which, with respect to a Defeased Synthetic Security that is a credit default swap shall, for purposes of the Weighted Average Spread Test, have a spread over the London interbank offered rate calculated based on the "fixed rate" payable by the Synthetic Security Counterparty under such credit default swap and the payments to the Issuer in respect of the related Synthetic Security Collateral (taking into account any total return swap or similar transaction related thereto) to the extent that they exceed the London interbank offered rate), unless the Collateral Manager notifies the Trustee that it is a Fixed Rate Security by its terms.

"Floorplan Receivable Securities" means Asset-Backed 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 Asset-Backed Securities) upon assets that will consist of a revolving pool of receivables arising from the purchase and financing by domestic retail motor vehicle dealers for their new and used automobile and light duty truck inventory. The receivables are comprised of principal receivables and interest receivables. In addition to receivables arising in connection with designated accounts, the trust assets may include interests in other floorplan assets, such as: (1) participation interests in pools of assets existing outside the trust and consisting primarily of receivables arising in connection with dealer floorplan financing arrangements originated by a manufacturer or one of its affiliates; (2) participation interests in receivables arising under dealer floorplan financing arrangements originated by a third party and participated to a manufacturer; (3) receivables originated by a manufacturer under syndicated floorplan financing arrangements between a motor vehicle dealer and a group of lenders; or (4) receivables representing dealer payment obligations arising from purchases of vehicles.

"Form-Approved Hedge Agreement" means a Deemed Fixed/Floating Rate Hedge Agreement with respect to which the related Fixed Rate Security or Floating Rate Security could be purchased by the Issuer without individually satisfying the Rating Condition and with respect to which the documentation conforms to a form which either (i) was delivered to each Rating Agency prior to the Closing Date in connection with this transaction and was not disapproved by any of the Rating Agencies or (ii) has satisfied the Rating Condition with respect to Standard & Poor's and Moody's as a Form-Approved Hedge Agreement for specific use in this transaction (as certified to the Trustee by the Collateral Manager); *provided* that if Standard & Poor's or Moody's notifies the Trustee or the Collateral Manager that it has withdrawn form-approved status with respect to a particular Form-Approved Hedge Agreement, then the Issuer shall no longer use such form as a Form-Approved Hedge Agreement; and *provided further*, that such withdrawal of form-approved status shall not affect the status of any Hedge Agreement entered into by the Issuer using such form prior to the withdrawal of form-approved status.

"Form Approved Synthetic Security" means one or more Synthetic Securities, the form of the documents in respect of which either (i) was delivered to the Rating Agencies prior to the Closing Date in connection with this transaction and was not disapproved by any of the Rating Agencies or (ii) has satisfied the Rating Condition with respect to Moody's and Standard & Poor's for use in this transaction or

(iii) is one of the forms attached to the Indenture as an Exhibit; *provided* that (i) if Standard & Poor's or Moody's notifies the Trustee or the Collateral Manager that it has withdrawn form-approved status with respect to a particular Form Approved Synthetic Security, then the Issuer shall no longer use such form as a Form Approved Synthetic Security; and *provided further* that such withdrawal of form-approved status shall not affect the status of any Synthetic Security entered into by the Issuer using such form prior to the withdrawal of form-approved status; and (ii) the Reference Obligation of each such Form Approved Synthetic Security shall be a CMBS, an ABS Type Residential Security or a CDO Obligation unless the Rating Condition has been satisfied with respect to such Reference Obligation.

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

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

"HAS Scenario Default Rate Factor" means, as of any date of determination, (a) one minus (b) the Class Scenario Default Rate for the Class A-1 Notes.

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

"Hedge Counterparty Ratings Requirement" means, with respect to a Hedge Counterparty or any permitted transferee thereof, (a) either (i) the unsecured, unguaranteed and otherwise unsupported short-term debt obligations of the related Hedge Rating Determining Party are rated at least "A-1" by Standard & Poor's, or (ii) if no short-term debt obligations of such Hedge Rating Determining Party are rated by Standard & Poor's, the unsecured, unguaranteed and otherwise unsupported long-term senior debt obligations of such Hedge Rating Determining Party are rated at least "A+" by Standard & Poor's and (b) either (i) (x) the unsecured, unguaranteed and otherwise unsupported short-term debt obligations of such Hedge Rating Determining Party are rated at least "P-1" by Moody's (and such rating is not on watch for possible downgrade) and (y) the unsecured, unguaranteed and otherwise unsupported long-term senior debt obligations of such Hedge Rating Determining Party are rated higher than "A1" by Moody's or are rated "A1" by Moody's (and such rating is not on watch for possible downgrade) or (ii) if there is no such short-term debt rating by Moody's, the unsecured, unguaranteed and otherwise unsupported long-term senior debt obligations of such Hedge Rating Determining Party are rated higher than "Aa3" by Moody's or are rated at least "Aa3" by Moody's (and such rating is not on watch for possible downgrade). The "Hedge Counterparty Ratings Requirement" with respect to any Hedge Counterparty under any Deemed Floating Rate Hedge Agreement or Deemed Fixed Rate Hedge Agreement shall be as set forth above, subject to any amendments to the relevant ratings set forth herein which the Rating Agencies may require, and the Issuer shall seek confirmation as to the level of such ratings from each of the Rating Agencies

prior to entering into any Deemed Floating Rate Hedge Agreement or Deemed Fixed Rate Hedge Agreement.

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

"Hedge Rebalancing Purchase" means Acquisition by the Issuer of a Cash Collateral Debt Security after the Reinvestment Period using Unscheduled Fixed Rate Principal Proceeds to purchase Fixed Rate Securities if the Aggregate Principal Balance of Fixed Rate Securities does not exceed the notional amount of the Fixed/Floating Hedge Agreements (if any) taking into account such Acquisition.

"Hedging Available Spread Amount" means, as of any date of determination, (a) the WAS Excess/Shortfall as of such date of determination multiplied by (b) the product of the Weighted Average Life and the HAS Scenario Default Rate Factor.

"Hedging Premium Test Amount" means, as of any date of determination, (I) the product of the following with respect to any Hedging Short Credit Default Swap with respect to which a Net Issuer Hedged Long Fixed Amount is payable: (a) the Net Issuer Hedged Long Fixed Amount, expressed as a percentage, payable by the Issuer under such Hedging Short Credit Default Swap multiplied by (b) the notional amount of the Hedged Long Credit Default Swap which is hedged by such Hedging Short Credit Default Swap multiplied by (c) the Average Life of the Reference Obligation under the Hedged Long Credit Default Swap which is hedged by such Hedging Short Credit Default Swap, and (II) the product of the following with respect to any Hedged Long Credit Default Swap with respect to which a Net Counterparty Hedged Fixed Amount is payable: (a) the Net Counterparty Hedged Fixed Amount, expressed as a percentage, payable by the Credit Default Swap Counterparty under such Hedged Long Credit Default Swap multiplied by (b) the notional amount of the Hedging Short Credit Default Swap which is hedging such Hedged Long Credit Default Swap multiplied by (c) the Average Life of the Reference Obligation under the Hedging Short Credit Default Swap which is hedging such Hedged Long Credit Default Swap.

"Hedging Short Credit Default Swap Premium Test" means a test which will be satisfied with respect to the entry into or acquisition of any Hedging Short Credit Default by the Issuer if, after giving effect to such entry or acquisition, the Total Hedging Premium Test Amount is less than or equal to the Hedging Available Spread Amount.

"High-Diversity CDO Securities" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from a portfolio of commercial and industrial loans, asset-backed securities (including collateralized debt obligations), trust preferred and similar securities or corporate debt securities (or any combination of the foregoing), or from one or more credit default swaps which reference such securities or loans and/or the obligors thereon, generally having the following characteristics: (1) such loans and securities have varying contractual maturities; (2) such loans and securities are obligations of issuers that represent a relatively diversified pool of credit risk having a Moody's diversity score higher than 20 or a Moody's Asset Correlation of less than 15%; (3) repayment thereof can vary substantially from the contractual payment schedule (if any), with early prepayment of individual loans or securities depending on

numerous factors specific to the particular issuers or obligors and upon whether, in the case of loans or securities bearing interest at a fixed rate, such loans or securities include an effective prepayment premium; and (4) in some cases, proceeds from such repayments can for a limited period and subject to compliance with certain eligibility criteria be reinvested in additional loans, asset-backed securities and/or corporate debt securities.

"High Yield CDO Securities" means CDO Obligations that are not CLO Securities and that entitle the holders thereof to receive payments that depend primarily on the cash flow from a portfolio of corporate bond securities and/or leveraged loans that are obligations of issuers that have a Moody's Rating below "Baa3."

"Home Equity Loan Securities" means Asset-Backed 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 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 Securities" means any ABS Type Residential Securities (including, without limitation, any Asset-Backed Securities the payments on which depend primarily on the cash flow from adjustable-rate mortgages) that, pursuant to their Underlying Instruments, pass through to the holders thereof all interest proceeds received in respect of the underlying collateral with respect to such Collateral Debt Securities, and a substituted portion of which underlying collateral consists of assets that bear interest at a fixed rate for a limited period of time (generally greater than 12 months at the time of issuance of the security on a weighted average basis), after which such assets bear interest based upon a floating rate index for Dollar-denominated obligations commonly used as a reference rate in the United States or the United Kingdom. If the Collateral Manager (on behalf of the Issuer) determines in accordance with the Underlying Instruments relating thereto and other customary sources that a Hybrid Security is passing through interest primarily based on a floating rate (and the Collateral Manager may determine this based on the weighted average roll date), the Collateral Manager (on behalf of the Issuer) shall provide notice to the Trustee that such Hybrid Security shall no longer be a Fixed Rate Security and such Hybrid Security shall be a Floating Rate Security and the Collateral Manager shall notify the Trustee from time to time of the Current Spread applicable to such security.

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

"Index Synthetic Security" means a Synthetic Security which references a recognized index of Reference Obligations or Reference Entities, on which transactions are made in the credit derivatives market.

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

"Insurance-Linked Securities" means Asset-Backed Securities that generally entitle the holders thereof to receive payments that depend on the cash flow from qualified investments and a reinsurance agreement or risk swap agreement, generally having the following characteristics: (1) the payment of interest and the repayment of principal is linked to insurance related losses that result from natural events such as seismic events, wind storms or other weather-related events that occur in a specified location during a specified time; and (2) if a covered natural event causes insured losses in excess of a specified amount investors may lose all or a portion of the principal amount of their security.

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

"Interest Distribution Amount" means, (1) with respect to any Class of Notes (other than Class A-1 Notes) and any Quarterly Distribution Date, the sum of (a) the aggregate amount of interest accrued at the annual rate at which interest accrues on the Notes of such Class applicable for the related Interest Period 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 Quarterly Distribution Date) *plus* (b) any Defaulted Interest in respect of the Notes of such Class and accrued interest thereon and (2) with respect to the Class A-1 Notes and any Quarterly Distribution Date, the sum of (a) the aggregate amount of interest accrued at the annual rate at which interest accrues on each Class A-1 Funding applicable for the related Interest Period on the amount of the Notes of such Class A-1 Funding on the first day of such Interest Period (after giving effect to any redemption of the related Class A-1 Notes other payment of principal of the related Class A-1 Notes on any preceding Quarterly Distribution Date) *plus* (b) any Defaulted Interest in respect of the Class A-1 Notes and accrued interest thereon.

"Interest Excess" means the lesser of (a) U.S.\$2,000,000 and (b) the excess, if any, of (i) the sum of the Aggregate Principal Balance of the Collateral Debt Securities *plus* all Uninvested Proceeds on deposit in the Uninvested Proceeds Account *plus* all Principal Proceeds in the Collection Accounts *plus* all CDS Principal Proceeds which have not been reinvested *plus* the Principal Proceeds distributed on any prior Quarterly Distribution Date, in each case, on the Ramp-Up Completion Date over (ii) U.S.\$ 1,500,000,000.

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

"Interest Period" means (a) in the case of the Class A-1 Notes in respect of a Class A-1 Funding, (i) the period from, and including, the Class A-1 Funding Date to, but excluding, the next succeeding Quarterly Distribution Date and (ii) thereafter, the period from, and including, the Quarterly Distribution Date immediately following the last day of the immediately preceding Interest Period to, but excluding, the next succeeding Quarterly Distribution Date; and (b) in the case of any other Class of Notes, (i) the period from, and including, the Closing Date to, but excluding, the first Quarterly Distribution Date and (ii) thereafter, the period from, and including, the Quarterly Distribution Date immediately following the last day of the immediately preceding Interest Period to, but excluding, the next succeeding Quarterly Distribution Date.

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



and Deferred Interest PIK Bonds) received in cash by the Issuer during such Due Period (excluding amounts required to be deposited into the Semi-Annual Interest Reserve Account or the Quarterly Interest Reserve Account); (2) all accrued interest (and Fixed Amounts) received in Cash by the Issuer during such Due Period with respect to Collateral Debt Securities Disposed of by the Issuer (including Disposition Proceeds or other recoveries received in respect of Defaulted Securities and Deferred Interest PIK Bonds in excess of the greater of the applicable portion of the original purchase price paid by the Issuer or the applicable par or face amount thereof except as set forth in clause (2) of the definition of Principal Proceeds); (3) all payments of interest (including any amount representing the accreted portion of a discount from the face amount of an investment) received in cash by the Issuer prior to the Quarterly Distribution Date next following such Due Period on investments in any Account (except (i) interest on investments in any Synthetic Security Issuer Account, (ii) interest on investments in any Hedge Counterparty Collateral Account, (iii) interest on a security in a Synthetic Security Counterparty Account which is payable to the Synthetic Security Counterparty and (iv) interest on investments in any Class A-1 Swap Prefunding Account) and all payments of principal, including repayments, received in cash by the Issuer prior to the Quarterly Distribution Date next following such Due Period on Eligible Investments purchased with amounts from the Interest Collection Account; (4) all amendment and waiver fees, all late payment fees, and all other fees and commissions received in cash by the Issuer during such Due Period in connection with Collateral Debt Securities and Eligible Investments (other than fees and commissions received in respect of Defaulted Securities and Deferred Interest PIK Bonds and yield maintenance payments, in each case, included in Principal Proceeds pursuant to clause (5) or (7) of the definition thereof); (5) interest on securities credited to any Synthetic Security Counterparty Account that are otherwise not payable to a Synthetic Security Counterparty and all payments by a Synthetic Security Counterparty (including, for the avoidance of doubt, any fixed amounts and any interest shortfall reimbursement payment amounts) under a Synthetic Security other than Principal Shortfall Reimbursement Payments; (6) all amounts on deposit in the Expense Account, the Semi-Annual Interest Reserve Account, the Quarterly Interest Reserve Account and the Reserve Account that are transferred to the Payment Account for application as Interest Proceeds as described below under "Security for the Notes—The Accounts"; (7) on the first Quarterly Distribution Date, Uninvested Proceeds on deposit in the Uninvested Proceeds Account on the related Determination Date or the Ramp-Up Completion Date, as applicable, in an amount equal to the Interest Excess; (8) all scheduled payments received pursuant to any Hedge Agreements (excluding any payments received by the Issuer by reason of an event of default or termination event or that are received as a result of any partial termination of such Hedge Agreement other than the portion thereof consisting of accrued scheduled payments) less any scheduled payments payable by the Issuer under such Hedge Agreement during such Due Period; (9) any amounts received in respect of Negative Amortization Capitalization Amounts for such Due Period; and (10) the Subsequent Due Period Interest Collection Amount, if any, for the related Quarterly Distribution Date; *provided* that (A) Interest Proceeds shall in no event include (i) any payment or proceeds specifically defined as "Principal Proceeds" in the definition thereof, or (ii) any Excepted Property and (B) for purposes of clause (9) of this definition, at any time when any Negative Amortization Capitalization Amounts have accrued on a Negative Amortization Security, (x) first, unscheduled payments of principal in respect of such Negative Amortization Security, and (y) second (but only if the related payment report delivered to investors indicates that the aggregate Negative Amortization Capitalization Amount (if any) in respect thereof has remained the same or decreased in the related reporting period), scheduled payments of principal in respect of such Negative Amortization Security, shall be deemed to be applied to the reduction of such aggregate Negative Amortization Capitalization Amount and therefore constitute "Interest Proceeds" for purposes of this definition until such aggregate Negative Amortization Capitalization Amount has been reduced to zero. Payments received by or made by the Issuer under a Hedge Agreement, the Total Return Swap or a Synthetic Security on or prior to a Quarterly Distribution Date shall be deemed to have been received during the Due Period related to such Quarterly Distribution Date.

"Interest Shortfall" means, with respect to any payment date under the Reference Obligation related to a Credit Default Swap, 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.

"Interest Shortfall Payment Amount" has the meaning given to such term in the Credit Default Swap.

"Inverse Floating Rate Security" means a floating rate security whose interest rate is inversely or otherwise not proportionately related to an interest rate index or is calculated as other than the sum of an interest rate index *plus* a spread.

"Investment Grade CDO Securities" means CDO Obligations with respect to which at least 80% of the assets in the underlying pool are corporate bonds and/or leveraged loans rated "Baa3" or higher by Moody's and "BBB-" or higher by Standard & Poor's (in each case, if rated by such rating agency).

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

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

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

"Junior Note Reduction Amount" means, with respect to any Quarterly Distribution Date, an amount equal to the lesser of (A)(i) the Junior Note Share multiplied by (ii) the Total Due Period Amortization for the Due Period relating to such Quarterly Distribution Date and (B) the difference between (i) the sum of the CDS Reserve Account Excess Withdrawal Amount and the Distributable Principal Proceeds and (ii) the Excess CDS Proceeds Amount (if any) on such Quarterly Distribution Date.

"Junior Note Share" means an amount equal to 100% minus the Class A-1 Share.

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

(1) On each LIBOR Determination Date, LIBOR for any Interest Period shall equal the offered rate, as determined by the Calculation Agent, for U.S. dollar deposits in Europe of the Designated Maturity that appears on Telerate Page 3750 (or such other page as may replace such Telerate Page 3750 for the purpose of displaying comparable rates), as reported by Bloomberg Financial Markets

Commodities News, as of 11:00 a.m. (London time) on the applicable LIBOR Determination Date. "LIBOR Determination Date" means, with respect to any Interest Period, the second London Banking Day prior to the first day of such Interest Period.

(2) If, on any LIBOR Determination Date, such rate does not appear on Telerate Page 3750 (or such other page as may replace such Telerate Page 3750 for the purpose of displaying comparable rates), as reported by Bloomberg Financial Markets Commodities News, the Calculation Agent shall determine the arithmetic mean of the offered quotations of the Reference Banks to prime banks in the London interbank market for U.S. dollar deposits of three months (or as set forth below in clause (3)) (*except* that in the case where such Interest Period shall commence on a day that is not a LIBOR Business Day, for the relevant term commencing on the next following LIBOR Business Day), by reference to requests for quotations as of approximately 11:00 a.m. (London time) on such LIBOR Determination Date made by the Calculation Agent to the Reference Banks. If, on any LIBOR Determination Date, at least two of the Reference Banks provide such quotations, LIBOR shall equal the arithmetic mean of such quotations. If, on any LIBOR Determination Date, fewer than two Reference Banks provide such quotations, LIBOR shall be deemed to be the arithmetic mean of the offered quotations that leading banks in New York City selected by the Calculation Agent are quoting on the relevant LIBOR Determination Date for U.S. dollar deposits for the term of such Interest Period (*except* that in the case where such Interest Period shall commence on a day that is not a LIBOR Business Day, for the relevant term commencing on the next following LIBOR Business Day), to the principal London offices of leading banks in the London interbank market.

(3) In respect of any Interest Period having a Designated Maturity other than three months LIBOR shall be determined through the use of straight-line interpolation by reference to two rates calculated in accordance with clauses (1) and (2) above, one of which shall be determined as if the maturity of the U.S. dollar deposits referred to therein were the period of time for which rates are available next shorter than the Interest Period and the other of which shall be determined as if such maturity were the period of time for which rates are available next longer than the Interest Period; *provided that*, if an Interest Period is less than or equal to seven days, then LIBOR shall be determined by reference to a rate calculated in accordance with clauses (1) and (2) above as if the maturity of the U.S. dollar deposits referred to therein were a period of time equal to seven days.

(4) If the Calculation Agent is required but is unable to determine a rate in accordance with either procedure described in clauses (1) or (2) above, LIBOR with respect to such Interest Period shall be the arithmetic mean of the offered quotations of the Reference Dealers as of 10:00 a.m. (New York time) on the first day of such Interest Period for negotiable U.S. Dollar certificates of deposit of major U.S. money market banks having a remaining maturity closest to the Designated Maturity.

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

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

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

(a) LIBOR for any interest period of a Pledged Collateral Debt Security shall equal the offered rate, as determined by the Calculation Agent, for U.S. dollar deposits of a term of one month that appears on Telerate Page 3750 (or such other page as may replace such Telerate Page 3750 for the purpose of displaying comparable rates), as reported by Bloomberg Financial Markets Commodities News, as of 11:00 a.m. (London time) on the applicable date of determination.

(b) If, on any date of determination, such rate does not appear on Telerate Page 3750 (or such other page as may replace such Telerate Page 3750 for the purpose of displaying comparable rates), as reported by Bloomberg Financial Markets Commodities News, the Calculation Agent shall determine the arithmetic mean of the offered quotations of the Reference Banks to prime banks in the London interbank market for U.S. dollar deposits of one month, by reference to requests for quotations as of approximately 11:00 a.m. (London time) on such date of determination made by the Calculation Agent to the Reference Banks. If, on any date of determination, at least two of the Reference Banks provide such quotations, LIBOR shall equal such arithmetic mean. If, on any date of determination, fewer than two Reference Banks provide such quotations, LIBOR shall be deemed to be the arithmetic mean of the offered quotations that one or more leading banks in New York City selected by the Calculation Agent are quoting on the relevant date of determination for U.S. dollar deposits for the term of one month, to the principal London offices of leading banks in the London interbank market.

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

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

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

"Limited Discretion Period" means a period that (a) begins on the date that both of the following conditions are satisfied (i) Moody's has withdrawn or reduced its ratings on any of the Class A Notes, Class B Notes or Class C Notes by one or more subcategories or withdrawn or reduced its ratings on any of the Class D Notes, the Class E Notes, the Class F Notes or the Class G Notes by two or more subcategories below the ratings in effect on the Closing Date (including any placement on "credit watch" with negative implications) and (ii) the Issuer, the Collateral Manager and the Trustee have received written notice from Holders of 50% or more of the aggregate outstanding principal amount of any Class of Notes (which Holders shall also forward a copy of such notice to Moody's) directing the Trustee and the Collateral Manager that a Limited Discretion Period is in effect and (b) ends on the date that either (i) the Holders of Notes that delivered such notice to the Trustee, Collateral Manager and the Issuer revoke such notice in writing (with such Holders forwarding a copy of such revocation to Moody's) or (ii) Moody's has upgraded any such reduced rating or reinstated any such withdrawn rating of the Class A Notes, Class B Notes or Class C Notes to at least their initial ratings or has upgraded any reduced rating or reinstated any such withdrawn rating of the Class D Notes, the Class E Notes, Class F Notes and Class G Notes, to no more than one subcategory below their initial ratings.

"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.

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

"Low-Diversity CDO Securities" means Asset-Backed 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 Asset-Backed Securities) on the cash flow from a portfolio of asset-backed securities (including collateralized debt obligations), commercial and industrial loans, trust preferred and similar securities or corporate debt securities (or any combination of the foregoing), or from one or more credit default swaps which reference such securities or loans and/or the obligors thereon, generally having the following characteristics: (1) the loans and securities have varying contractual maturities; (2) the loans and securities are obligations of a pool of obligors or issuers that represent a relatively undiversified pool of credit risk having a Moody's diversity score of 20 or lower or a Moody's Asset Correlation of 15% or more; (3) repayment thereof can vary substantially from the contractual payment schedule (if any), with early prepayment of individual securities and loans depending on numerous factors specific to the particular issuers and upon whether, in the case of loans or debt securities bearing interest at a fixed rate, such loans or securities include an effective prepayment premium; and (4) in some cases, proceeds from such repayments can for a limited period and subject to compliance with certain eligibility criteria be reinvested in additional loans and/or debt securities.

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

"Managed Bespoke CDO Security" means any CDO Obligation issued by a CDO which issues a single class of securities, where the investors' exposure to credit risk is taken by the issuer entering into a credit default swap with, or purchasing a credit-linked note or similar instrument from, a protection buyer in relation to a pool of corporate reference entities or asset-backed securities selected by a manager (which may or may not be the protection buyer) which has substitution or similar rights in relation to the pool.

"Management Fee" means the Senior Management Fee and the Subordinate Management Fee.

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

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

"Market Value CDO Security" means a CDO Obligation whose overcollateralization is measured by reference to the market value of the Underlying Portfolio securing such CDO Obligation.

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

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

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

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

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

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

"Multiple Obligation Synthetic Security" means a Synthetic Security which references more than one Reference Obligation.

"Mutual Fund Securities" means Asset-Backed 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 Asset-Backed Securities) on the cash flow from a pool of brokerage fees and costs relating to various mutual funds, generally having the following

characteristics: (1) the brokerage arrangements have standardized payment terms and require minimum payments; (2) the brokerage fees and costs arise out of numerous mutual funds and accordingly represent a very diversified pool of credit risk; and (3) the collection of brokerage fees and costs can vary substantially from the contractual payment schedule (if any), with collection depending on numerous factors specific to the particular mutual funds, interest rates and general economic matters.

"Negative Amortization Capitalization Amount" means, with respect to any Negative Amortization Security and any specified period of time, the aggregate amount of accrued interest thereon that has been capitalized as principal pursuant to the related Underlying Instruments during such period, as the same may be reduced from time to time pursuant to and in accordance with the related Underlying Instruments.

"Negative Amortization Haircut Amount" means, with respect to any Negative Amortization Security on any date, the excess (if any) of (a) the Negative Amortization Capitalization Amount therefor (if any) over (b) the sum of (i) 5% of the original principal amount of such Negative Amortization Security upon issuance and (ii) the amount by which such Negative Amortization Security has already been haircut pursuant to the operation of sub-clause (g) or sub-clause (h), as applicable, of the defined term "Principal Balance" (taking into account the proviso to the definition of Negative Amortization Security in the case of such sub-clause).

"Negative Amortization Security" means an ABS Type Residential Security which (a) permits the related mortgage loan or mortgage loan obligor for a specified period of time to make no repayments of principal and payments of interest in amounts that are less than the interest payments that would otherwise be payable thereon based upon the stated rate of interest thereon, (b) to the extent that interest proceeds received in respect of the related underlying collateral are insufficient to pay interest that is due and payable thereon, permits principal proceeds received in respect of the related underlying collateral to be applied to pay such interest shortfall and (c) to the extent that the aggregate amount of interest proceeds and principal proceeds received in respect of the related underlying collateral are insufficient to pay interest that is due and payable thereon, permits such unpaid interest to be capitalized as principal and itself commence accruing interest at the applicable interest rate, in each case pursuant to the related Underlying Instruments; *provided* that, for purposes of determining which Collateral Debt Securities comprise the Aggregate Principal Balance in excess of the Floor Percentage, if any, for purposes of clauses (g) or (h) of the defined term "Principal Balance," the identity of the Collateral Debt Securities comprising any such excess over the Floor Percentage shall be determined by assuming that any Negative Amortization Securities that could form part of such excess will be the last Collateral Debt Securities that are added to such excess.

"Net Counterparty Hedged Fixed Amount" means, with respect to a Hedged Long Credit Default Swap, on any payment date thereunder, the excess, if any, of the Fixed Amount payable by the Credit Default Swap Counterparty under such Hedged Long Credit Default Swap over the Fixed Amount payable by the Issuer under the related Hedging Short Credit Default Swap on such payment date.

"Net Issuer Hedged Long Fixed Amount" means, with respect to a Hedged Long Credit Default Swap, on any payment date thereunder, the excess, if any, of the Fixed Amount payable by the Issuer under the related Hedging Short Credit Default Swap over the Fixed Amount payable by the Credit Default Swap Counterparty under such Hedged Long Credit Default Swap on such payment date.

"Net Outstanding Portfolio Collateral Balance" means as of any Measurement Date, an amount equal to (a) the Aggregate Principal Balance as of such Measurement Date of all Pledged Collateral Debt Securities (other than Defaulted Securities and Deferred Interest PIK Bonds) *plus* (b) the aggregate amount of all Principal Proceeds and Uninvested Proceeds held as cash and the Balance of all Eligible Investments purchased with Principal Proceeds or Uninvested Proceeds and any amount on deposit at such time in the Principal Collection Account or the Uninvested Proceeds Account (without duplication) *plus* (c) the CDS Reserve Account Excess *plus* (d) for each Defaulted Security or Deferred Interest PIK

Bond, the Calculation Amount with respect to such Defaulted Security or Deferred Interest PIK Bond, as applicable *minus* (e) solely for the purpose of the Class A Sequential Pay Ratio, the Negative Amortization Haircut Amount. For purposes of the "Eligibility Criteria" prior to the Ramp-Up Completion Date and for purposes of showing compliance with the Eligibility Criteria in the monthly reports and note valuation reports, the Net Outstanding Portfolio Collateral Balance shall be deemed to equal U.S.\$1,500,000,000. For purposes of paragraphs (2), (5), (18) through (19), (21) through (24), (26) through (32) and (35) through (39) of the "Eligibility Criteria" the Net Outstanding Portfolio Collateral Balance shall be deemed to equal the greater of (i) the Net Outstanding Portfolio Collateral Balance at such time and (ii) U.S.\$1,500,000,000.

"NIM Securities" means Asset-Backed Securities that are rated by Moody's (as to principal balance and a stated coupon) and have a Standard & Poor's Rating and that entitle the holders thereof to receive payments that depend primarily (except for the rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from interest spreads from mortgage securitizations.

"Non-LIBOR Floating Rate Security" means a Floating Rate Security that bears interest based upon a floating rate index for Dollar-denominated obligations other than the London interbank offered rate.

"Notice of Physical Settlement" means a notice from the Credit Default Swap Counterparty to the Issuer that (i) irrevocably confirms that Credit Default Swap Counterparty will settle the Credit Default Swap and require the Issuer to pay the Physical Settlement Amount and (ii) contains a detailed description of the Deliverable Obligations that the Credit Default Swap Counterparty will deliver to the Issuer, including the outstanding principal balance of each such Deliverable Obligation to be delivered and, if available, the CUSIP or ISIN number (if such identifying number is not available, the rate and tenor of the Deliverable Obligation).

"Notice of Publicly Available Information" means an irrevocable written notice from the Synthetic Security Counterparty to the Issuer that cites information reasonably confirming the facts relevant to the determination that the Credit Event described in a Credit Event Notice has occurred.

"Notional Amount" means, with respect to each Preferred Security, U.S.\$1,000.

"Notional Amount Shortfall" means, at any time, the greater of (1) zero and (2) the excess (if any) of (a) the aggregate Remaining Exposure of all Credit Default Swaps (or such lesser amount as the Issuer and the Credit Default Swap Counterparty agree) over (b) the sum of (i) the Aggregate Undrawn Amount *plus* (ii) the CDS Reserve Account Balance.

"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.

"Oil and Gas Securities" means Asset-Backed 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 Asset-Backed Securities) on the cash flow from (a) a pool of franchise loans made to operators of franchises that provide oil and gasoline and provide other services related thereto and (b) leases or subleases of equipment to such operators for use in the provision of such goods and services. They generally have the following characteristics: (1) the loans, leases or subleases have varying contractual maturities; (2) the loans are secured by real property purchased or improved with the proceeds thereof (or to refinance an outstanding loan the proceeds of which were so used);



(3) the obligations of the lessors or sublessors of the equipment may be secured not only by the leased equipment but also the related real estate; (4) the loans, leases and subleases are obligations of a relatively limited number of obligors and accordingly represent a relatively undiversified pool of obligor credit risk; (5) payment of the loans can vary substantially from the contractual payment schedule (if any), with prepayment of individual loans depending on numerous factors specific to the particular obligors and upon whether, in the case of loans bearing interest at a fixed rate, such loans include an effective prepayment premium; (6) the repayment stream on the leases and subleases is primarily determined by a contractual payment schedule, with early termination of such leases and subleases predominantly dependent upon the disposition to a lessee, a sublessee or third party of the underlying equipment; (7) such leases and subleases typically provide for the right of the lessee or sublessee to purchase the equipment for its stated residual value, subject to payments at the end of a lease term for excess usage or wear and tear; and (8) the ownership of a franchise right or other similar license and the creditworthiness of such franchise operators is the primary factor in any decision to invest in these securities.

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

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

"Physical Settlement Date" means the last day of the period specified in the relevant Credit Default Swap or if such a period is not specified, the longest number of Business Days for settlement in accordance with the current market practice for the related Reference Obligation.

"PIKable Reference Obligation" means a security that, pursuant to the terms of the Underlying Instruments, permits capitalization or deferral of interest on such Reference Obligation.

"PIK Bond" means (i) any security that (or any Synthetic Security the Reference Obligation of which), pursuant to the terms of the related Underlying Instruments, permits the payment of interest thereon to be deferred and capitalized as additional principal thereof or that issues identical securities in place of payments of interest in cash and (ii) expressly provides that such deferral and capitalization does not constitute an event of default (however denominated) under such security or the related Underlying Instruments; *provided* that in no event will a Negative Amortization Security constitute a PIK Bond for purposes of this definition.

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

"Pledged Securities" means on any date of determination, (a) the Collateral Debt Securities, Equity Securities and Eligible Investments that have been granted to the Trustee and (b) all non-cash proceeds thereof, in each case, to the extent not released from the lien of the Indenture pursuant thereto.

"Preferred Security Redemption Date Amount" means the amount required (after taking into account any dividends or other distributions made or to be made to the holders of the Preferred Securities on the applicable Quarterly Distribution Date and all prior Quarterly Distribution Dates in accordance with the Priority of Payments) to ensure that, after distribution of such amount to the Preferred Security Paying Agent for distribution to the Holders of Preferred Securities, the IRR on the Preferred Securities is not less than 2% on the initial Aggregate Notional Amount of the Preferred Securities for the period from the Closing Date to such Quarterly Distribution Date. For the avoidance of doubt, the calculation of the IRR will take into account all of the distributions made on the Preferred Securities from the Closing Date to (and including) the Redemption Date, regardless of when a Holder of Preferred Securities first purchased its Preferred Securities.

"Preferred Securities" means the Class A Preferred Securities and the Class B Preferred Securities.

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

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

(b) the Principal Balance of any Synthetic Security shall be equal to (i) in the case of a Synthetic Security that is a credit default swap under which the Issuer is acting as the protection seller (including any Long Credit Default Swap), (A) at any time prior to the delivery of a Notice of Physical Settlement, (1) the Reference Obligation Notional Amount of such Synthetic Security minus (2) in the case of a Long Credit Default Swap, the Reference Obligation Notional Amount of any related Hedging Short Credit Default Swap (which Hedging Short Credit Default Swap shall be treated as part of the Synthetic Security to which it relates for purposes of determining the Principal Balance of both under this clause (A)) or (B) at any time following the delivery of a Notice of Physical Settlement but prior to the due date on which the related Deliverable Obligations are required to be delivered to the Issuer with respect to the Exercise Amount, (1) the Physical Settlement Amount of such Synthetic Security minus (2) the Physical Settlement Amount of any related Hedging Short Credit Default Swap (which shall be treated as part of the Synthetic Security to which it relates for purposes of determining the Principal Balance of both under this clause (B)), in each case determined in accordance with the Underlying Instruments relating thereto, (ii) in the case of a Synthetic Security that is a credit default swap under which the Issuer is acting as the protection buyer (including any Hedging Short Credit Default Swap), zero, (iii) in the case of any other Synthetic Security not described in the foregoing clause (i) or (ii) other than a Synthetic Security in the form of a note, the aggregate amount of the repayment obligations of the Synthetic Security Counterparty payable to the Issuer through the maturity of such Synthetic Security, (iv) in the case of a Synthetic Security in the form of a note, the outstanding principal amount thereof or (v) in the case of any Defeased Synthetic Security, the notional amount thereof reduced by the amount of any payments due and payable to the Synthetic Security Counterparty by reason of the occurrence of one or more "credit events" or other similar circumstances to the extent such payments have not yet been made;

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

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

(e) solely for the purpose of calculating the Net Outstanding Portfolio Collateral Balance in connection with the Class A Sequential Pay Test, (i) the Principal Balance of any Written Down Security shall be its outstanding principal amount or certificate balance reduced by the Written Down Amount thereof (to the extent it has not already been taken into account in the calculation of its outstanding principal amount or certificate balance) and (ii) the Principal Balance of any Discount Security shall be its principal amount or certificate balance *minus* the Discount Haircut Amount; *provided* that if (in the case of either clause (i) or clause (ii)) the principal amount or certificate balance of the applicable Collateral Debt Security is also subject to adjustment pursuant to clause (g) below, in the case of the Class A-Sequential Pay Test, such Collateral Debt Security shall be reduced only pursuant to the clause of this definition of "Principal Balance" that, as of the applicable Determination Date, results in the lowest Principal Balance for that Collateral Debt Security for purposes of the Class A Sequential Pay Test;

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

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

Moody's Rating	Discount Percentage	Floor Percentage	Standard & Poor's Rating	Discount Percentage	Floor Percentage
Ba1, Ba2 or Ba3	90%	10%	BB+, BB or BB-	90%	5%
B1, B2 or B3	80%	0%	B+, B or B-	70%	0%
Below B3	50%	0%	Below B-	50%	0%

*provided that:*

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

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

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

(i) the Principal Balance of a Negative Amortization Security shall be (i) the original principal amount of such Negative Amortization Security on the date of issuance thereof (which amount shall in no event be adjusted to reflect any Negative Amortization Capitalization Amounts thereon) *minus* (ii) the aggregate amount of all payments made in respect of principal thereof (excluding any payments made in respect of Negative Amortization Capitalization Amounts for any period) from and including the date of issuance thereof to but excluding such date of determination.

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

"Principal Proceeds" means with respect to any Due Period, the sum (without duplication) of: (1) any Uninvested Proceeds on deposit in the Uninvested Proceeds Account on the Ramp-Up Completion Date (other than any such Uninvested Proceeds to be used to complete the purchase of

Collateral Debt Securities or any Interest Excess to be applied as Interest Proceeds); (2) all payments of principal of the Collateral Debt Securities received in cash by the Issuer during such Due Period (excluding any amounts received in respect of Negative Amortization Capitalization Amounts) including prepayments or mandatory sinking fund payments, or payments in respect of optional redemptions, exchange offers, tender offers, recoveries on Defaulted Securities and Deferred Interest PIK Bonds (but only to the extent of the greater of (x) par or face amount of such securities and (y) the original purchase price paid by the Issuer for such Securities), the proceeds of a sale of any Equity Security and any amounts received as a result of optional redemptions, exchange offers, tender offers for any Equity Security received in cash by the Issuer during such Due Period; (3) Disposition Proceeds received in cash by the Issuer during such Due Period (including those received as a result of the sale of any Deferred Interest PIK Bond or Defaulted Security, but excluding those included in Interest Proceeds as defined above) and any amounts (other than investment income) released from a Synthetic Security Counterparty Account (including termination payments made by the Synthetic Security Counterparty other than "Unpaid Amounts" as defined in the applicable Synthetic Security); (4) all payments of principal received in cash by the Issuer prior to the Quarterly Distribution Date next following such Due Date on Eligible Investments purchased with amounts from the Principal Collection Account or Uninvested Proceeds Account (excluding any amount representing the accreted portion of a discount from the face amount of an Eligible Investment); (5) all amendment, waiver, late payment fees and other fees and commissions, received in cash by the Issuer during such Due Period in respect of Deferred Interest PIK Bonds and Defaulted Securities (but only to the extent of par or face amount of such securities); (6) all payments received in cash by the Issuer during such Due Period that represent call, prepayment or redemption premiums; (7) yield maintenance payments received in cash by the Issuer during such Due Period; (8) all scheduled payments of interest on Deferred Interest PIK Bonds and Defaulted Securities received in cash by the Issuer during such Due Period and any other payments in respect thereof not addressed in clauses (1) through (7) above received in cash by the Issuer during such Due Period (but only to the extent of par or face amount of such securities); (9) all other payments received by the Issuer in such Due Period in connection with the Collateral Debt Securities and Eligible Investments (other than those standing to the credit of any Hedge Counterparty Collateral Account, Synthetic Security Issuer Account or Synthetic Security Counterparty Account) that are not included in Interest Proceeds (including, for the avoidance of doubt, any Principal Reimbursements under a Synthetic Security); (10) any proceeds resulting from the termination and liquidation of any Hedge Agreement (other than the portion thereof constituting accrued scheduled payments), to the extent such proceeds exceed the cost of entering into a replacement Hedge Agreement in accordance with the requirements set forth in the Indenture; (11) all payments of interest received in cash by the Issuer during such Due Period to the extent that they represent accrued interest purchased during the Reinvestment Period with Principal Proceeds, (12) amounts transferred from the Expense Account which are designated by the Collateral Manager as Principal Proceeds and (13) any Net Counterparty Hedged Fixed Amounts; *provided that* in no event will Principal Proceeds include any Excepted Property.

"Principal Shortfall Amount" means the expected amount of principal on the Reference Obligation which was not paid on the Final Amortization Date or legal final maturity date for the Reference Obligation, applied to the Reference Obligation Notional Amount.

"Prior Period Accrued Amount" means, on a Quarterly Distribution Date, any portion of the Class A Preferred Security Return Amount payable on a preceding Quarterly Distribution Date which was not paid on such Quarterly Distribution Date or on any subsequent Quarterly Distribution Date, together with interest accrued thereon at 6% per annum (compounded quarterly) from and including the earliest preceding Quarterly Distribution Date on which such amount was not paid to but excluding the current Quarterly Distribution Date.

"Proceeds Swap Installment" means, on each Quarterly Distribution Date through and including the Quarterly Distribution Date in October 2010, an amount equal to U.S.\$431,250, *plus* any unpaid amounts of a Proceeds Swap Installment due on any prior Quarterly Distribution Date; *provided that*, on any Quarterly Distribution Date occurring on (or after, in the case of an acceleration of the maturity of the

Notes) the earliest to occur of the date of any Optional Redemption, Auction Call Redemption, Tax Redemption or the date of any acceleration of the maturity of the Notes, "Proceeds Swap Installment" shall mean the sum of (a) any unpaid amounts of a Proceeds Swap Installment due on any prior Quarterly Distribution Date *plus* (b) a termination payment calculated in accordance with the Hedge Agreement.

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

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

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

"Qualified Purchaser" means (i) a "qualified purchaser" as defined in the Investment Company Act of 1940, as amended (the "Investment Company Act"), (ii) a "knowledgeable employee" with respect to the Issuer within the meaning of Rule 3c-5 of the Investment Company Act or (iii) a company beneficially owned exclusively by one or more such "qualified purchasers" and/or "knowledgeable employees." MLPFS is acting as sole book runner with respect to the placement of the Securities. See "Plan of Distribution" and "Transfer Restrictions."

"Qualifying Foreign Obligor" means a corporation, partnership or other entity located in any of Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland or the United Kingdom, so long as the unguaranteed, unsecured and otherwise unsupported long-term U.S. dollar sovereign debt obligations of such country are rated "Aa2" (and if rated "Aa2" is not on watch for downgrade) or better by Moody's and "AA" or better by Standard & Poor's.

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

"Quarterly Interest Distribution" means Distributions of interest on any Collateral Debt Security in respect of which payments of interest are scheduled to be made on a quarterly basis.

"Ramp-Up Completion Date" means the date that is the earlier of (a) December 26, 2006 and (b) the first date on which the sum of the Aggregate Principal Balance of the Collateral Debt Securities which the Issuer has Acquired or committed to Acquire *plus* the Balance of all Eligible Investments purchased with Principal Proceeds *plus* all CDS Principal Proceeds which have not been reinvested *plus* the Principal Proceeds distributed on any prior Quarterly Distribution Date is at least equal to U.S.\$1,500,000,000.

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

"Rating Condition" means with respect to any action taken or to be taken under the Indenture, a condition that is satisfied when each of Standard & Poor's and Moody's (or if the Indenture expressly so specifies in respect of such action, the specified Rating Agency) has confirmed in writing to the Trustee and the Collateral Manager that such action will not result in the withdrawal, reduction or other adverse action with respect to any then-current rating by such Rating Agency of any Class of Notes.

"Ratings Event" means, with respect to any Hedge Agreement, the occurrence of any event specified in the applicable Hedge Agreement as a "Ratings Event."

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

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

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

"Reference Obligation" means (i) any CDO Obligation, (ii) Other ABS, (iii) Corporate Debt Security (or Reference Obligor thereon) or (iv) a specified pool of financial assets (including credit default swaps) or Reference Obligors, either static or revolving. "Reference Obligor" means, with respect to a Reference Obligation, the obligor on such Reference Obligation.

"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. For the avoidance of doubt, the first Reference Obligation Calculation Period will begin on the Reference Obligation Payment Date falling on or immediately prior to the effective date of the Reference Obligation.

"Reference Obligation Notional Amount" means, with respect to any Credit Default Swap, an amount equal to the outstanding principal amount of the related Reference Obligation; *provided* that, following the effective date of the Credit Default Swap, the Reference Obligation Notional Amount will be reduced to reflect CDS Principal Payments, Floating Amounts paid following any Failure to Pay Principal and any Writedown and each Exercise Amount in connection with a physical settlement following a Credit Event and will be increased by any Principal Reimbursements in respect of Failures to Pay Principal or Writedown.

"Reference Obligation Payment Date" means (i) each scheduled distribution date for the Reference Obligation occurring on or after the effective date of the Reference Obligation and on or prior to the scheduled termination date of the Credit Default Swap, 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 Security Interest Distribution" means (i) any interest payable to a holder of the Reference Security in respect of and pursuant to the terms of such Reference Security (including regularly scheduled interest and any interest payable on such amount pursuant to the terms of the Reference Security because such interest was not timely paid), (ii) any amounts payable to a holder of the Reference Security that have accreted in accordance with the terms of such Reference Security since the determination of the initial principal amount of such Reference Security 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 the Reference Security (whether paid by the obligor, a trustee or paying agent in respect of the Reference Security or any other similar entity or obligor in respect of such Reference Security to a holder of such Reference Security) that do not constitute a payment of principal of such Reference Security.

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

"Reinvestment Period" means the period from (and including) the Closing Date to (but excluding) the earliest of (a) the Quarterly Distribution Date occurring in October 2010, (b) the date of any Tax Redemption, (c) the Quarterly Distribution Date on which the Collateral Manager specifies (by notice to the Trustee) that no further investments in substitute Collateral Debt Securities will occur, (d) the date on which an Event of Default resulting in an acceleration of the Notes occurs, and (e) any date after Harding Advisory has resigned or been removed as Collateral Manager, on which the Holders of at least a majority in Aggregate Outstanding Amount of the Controlling Class or a Majority-in-Interest of the Holders of Preferred Securities notify the Trustee and the Collateral Manager that the Reinvestment Period shall be terminated.

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

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

"REIT Debt Securities—Hotel" means Asset-Backed Securities issued by a real estate investment trust (as defined in Section 856 of the Code or any successor provision) whose assets consist primarily (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) of mortgages on hotels, motels, youth hostels, bed and breakfasts

and other similar real property interests used in one or more similar businesses; *provided* that any Asset-Backed Security falling within this definition shall be excluded from the definition of each other Specified Type of Asset-Backed Security.

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

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

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

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

"REIT Debt Securities—Residential" means Asset-Backed Securities issued by a real estate investment trust (as defined in Section 856 of the Code or any successor provision) whose assets consist primarily (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) of residential mortgages (other than multi-family dwellings) and other similar real property interests; *provided* that any Asset-Backed Security falling within this definition shall be excluded from the definition of each other Specified Type of Asset-Backed Security.

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



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

"REIT Trust Preferred CDO Securities" means CDO Obligations that entitle the holders thereof to receive payments that depend primarily (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the securities) on the cash flow from a pool of trust preferred securities issued by a REIT or a wholly-owned trust subsidiary of a REIT.

"Reg Y Institution" means any Holder of Preferred Securities 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 Preferred Securities 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.

"Related Security" means, with respect to a Deemed Fixed Rate Hedge Agreement, the related Deemed Fixed Rate Security, and, with respect to a Deemed Floating Rate Hedge Agreement, the related Deemed Floating Rate Security.

"Remaining Class A Balance" on any Quarterly Distribution Date, means the difference between (i) U.S. \$64,000,000, and (ii) the aggregate amount of all Class A Distribution Amounts and payments of the Unpaid Class A Distribution Amount actually received on prior Quarterly Distribution Dates.

"Remaining Exposure" means, (i) with respect to any Credit Default Swap that is an Unhedged Long Credit Default Swap, the sum (without duplication) of (a) the maximum aggregate Floating Amounts or Physical Settlement Amounts and (b) the maximum net settlement amount (whether at the time funded or unfunded) that, in each case, the Issuer could be required to pay or otherwise transfer to the related Synthetic Security Counterparty (including MLI) thereunder, in each case to the extent such obligation to make such payment or transfer has not expired or been terminated pursuant to the Underlying Instruments relating to such Credit Default Swap and (ii) zero with respect to any Credit Default Swap that is a Hedged Long Credit Default Swap. Unless the Credit Default Swap Counterparty otherwise notifies the Issuer and the Trustee, the Remaining Exposure under an Unhedged Long Credit Default Swap will be equal to the Reference Obligation Notional Amount or, if the Issuer has made a Disposition of an Unhedged Long Credit Default Swap, the Swap Termination Payment due from the Issuer (if any) if it has not been paid.

"Reset Date" means, with respect to any Hybrid Security, the date on which the Collateral Manager on behalf of the Issuer notifies the Trustee that such Hybrid Security is primarily paying interest based on floating rates and therefore shall no longer be considered a Fixed Rate Security.

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

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

"RMBS Agency Securities" means securities issued and fully and unconditionally guaranteed by the Federal National Mortgage Association, Federal Home Loan Mortgage Corporation or the Government National Mortgage Association.

"Semi-Annual Interest Distributions" means, with respect to any Collateral Debt Security, Distributions of interest on such Collateral Debt Security that are scheduled to be made on a semi-annual basis.

"Semi-Annual Interest Release Amount" means, with respect to any Quarterly Distribution Date and any Semi-Annual Interest Distribution received by the Issuer in respect of any Collateral Debt Security on any Due Period occurring prior to such Quarterly Distribution Date, an amount equal to such Semi-Annual Interest Distribution *divided by six (6)*; *provided, however*, that, the aggregate of all Semi-Annual Interest Release Amounts related to any Semi-Annual Interest Distribution received by the Issuer in respect of any Collateral Debt Security on any Due Period will not exceed such Semi-Annual Interest Distribution.

"Senior Management Fee" means the fee payable to the Collateral Manager in arrears on each Quarterly Distribution Date pursuant to the Collateral Management Agreement, in an amount equal to 0.10% *per annum* of the Quarterly Asset Amount for such Quarterly Distribution Date; *provided* that the Senior Management Fee will be payable on each Quarterly Distribution Date only to the extent of funds available for such purpose in accordance with the Priority of Payments. Any accrued but unpaid Senior Management Fee will be deferred. Any unpaid Senior Management Fee that is deferred (whether as a result of the operation of the Priority of Payments as described herein or at the option of the Collateral Manager) shall be paid on the next succeeding Quarterly Distribution Date(s) to the extent funds are available for such purpose in accordance with the Priority of Payments, until such unpaid fee is paid in full and shall not accrue interest. Any Senior Management Fee accrued but not paid prior to the resignation or removal of a Collateral Manager shall continue to be payable to such Collateral Manager on the Quarterly Distribution Date immediately following the effectiveness of such resignation or removal.

"Sequential Pay Period" means, after the Ramp-Up Period, the period commencing on the earliest to occur of (a) the first date on which the Net Outstanding Portfolio Collateral Balance is less than 50% of the Net Outstanding Portfolio Collateral Balance on the Ramp-Up Completion Date (for the avoidance of doubt, the Sequential Pay Period may commence on the Quarterly Distribution Date on which such balance falls to less than 50%), (b) the first Determination Date on which the Class A Sequential Pay Test is not satisfied, (c) the first Determination Date on which an Event of Default which has occurred and is continuing and (d) the first date on which the rating of any outstanding Class of Notes by Standard & Poor's or Moody's has been reduced or withdrawn (and in the case of a withdrawal or reduction by Moody's, the Holders of at least a majority in Aggregate Outstanding Amount of the Controlling Class consents to such event constituting a "Sequential Pay Period" for purposes of this definition). For the avoidance of doubt, if a Sequential Pay Period has commenced a Pro Rata Pay Period may not commence on any future Quarterly Distribution Date.

"Servicer" means with respect to any Collateral Debt Security or the Reference Obligation of a Synthetic Security, the entity that, absent any default, event of default or similar condition (however described), is primarily responsible for managing, servicing, monitoring and otherwise administering the cash flows from which payments to investors in such Collateral Debt Securities or the Reference Obligation of the Synthetic Security are made; *provided, however*, "Servicer" shall not include any collateral manager, swap counterparty or other service provider for any issuer of any CDO Obligation (including, without limitation, any Bespoke CDO Security) or a credit-linked note.

"Shipping Securities" means Asset-Backed Securities that entitle 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 Asset-Backed Securities) on the cash flows from ship financing and shipping industry related loans.

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

"Small Business Loan Securities" means Asset-Backed 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 Asset-Backed Securities) on the cash flow

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

"Special Majority-in-Interest of Holders of Preferred Securities" means at any time, Holders of Preferred Securities whose aggregate Voting Percentages at such time exceed  $66\frac{2}{3}\%$  of all Holders of Preferred Securities' Voting Percentages at such time.

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

"Specified CDS Principal Proceeds" means (A) any CDS Principal Proceeds that the Collateral Manager elects, by written notice to the Trustee given on or prior to the relevant Determination Date, to treat as Specified CDS Principal Proceeds and (B) any CDS Principal Proceeds not reinvested by the Determination Date for the second Quarterly Distribution Date following the Due Period of the CDS Principal Receipt Date for such CDS Principal Proceeds. For this purpose, the Trustee shall assume that (i) any application of CDS Principal Proceeds is made first from the CDS Principal Proceeds with the earliest CDS Principal Receipt Date, and (ii) the amount of any Principal Proceeds transferred, at the discretion of the Collateral Manager, to the CDS Reserve Account will be deemed to be Specified CDS Principal Proceeds on the Determination Date for the second Quarterly Distribution Date following the Due Period in which such Principal Proceeds were received (if the amount thereof has not been reinvested in Credit Default Swaps, as determined in accordance with clause (i) with the date of receipt of Principal Proceeds treated as the CDS Principal Receipt Date).

"Specified Principal Proceeds" means (A) any Principal Proceeds that the Collateral Manager elects, by written notice to the Trustee given prior to the relevant Determination Date, to treat as Specified Principal Proceeds, (B) any Principal Proceeds not reinvested by the Determination Date for the second Quarterly Distribution Date following the Due Period in which the Issuer received such Principal Proceeds, (C) any Principal Proceeds consisting of payments or proceeds of Defaulted Securities and (D) any Principal Proceeds available on a Quarterly Distribution Date relating to a Determination Date on which the Class A Sequential Pay Test is not satisfied. For this purpose the Trustee shall assume that (i) any application of Principal Proceeds is made first from the Principal Proceeds received by the Issuer on the earliest date, and (ii) the amount of any CDS Reserve Account Excess transferred, at the discretion of the Collateral Manager, to the Principal Collection Account will be deemed to be Specified Principal Proceed on the Determination Date for the second Quarterly Distribution Date following the Due Period in which the CDS Principal Receipt Date occurred (if the amount thereof has not been reinvested in Collateral Debt Securities, as determined in accordance with clause (i) with the CDS Principal Receipt Date treated as the date such amount was received by the Issuer).

"Spread Excess" as of any Measurement Date will equal a fraction (expressed as a percentage) the numerator of which is equal to the product of (a) the greater of zero and the excess, if any, of the

Weighted Average Spread for such Measurement Date over 1.67% and (b) the Aggregate Principal Balance of all Pledged Collateral Debt Securities that are Floating Rate Securities or Deemed Floating Rate Securities (excluding Defaulted Securities, Deferred Interest PIK Bonds and Written Down Securities) and the denominator of which is the Aggregate Principal Balance of all Pledged Collateral Debt Securities that are Fixed Rate Securities or Deemed Fixed Rate Securities (excluding Defaulted Securities, Deferred Interest PIK Bonds and Written Down Securities).

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

"Static Bespoke CDO Security" means a CDO Obligation issued by a CDO which issues a single class of securities, where the investors' exposure to credit risk is taken by the issuer entering into a credit default swap with, or purchasing a credit-linked note or similar instrument from, a protection buyer in relation to a static pool of corporate reference entities or asset-backed securities.

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

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

"Structured Settlement Securities" means Asset-Backed 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 Asset-Backed Securities) on the cash flow from receivables representing the right of litigation claimants to receive future scheduled payments under settlement agreements that are funded by annuity contracts, which receivables may have varying maturities.

"Student Loan Securities" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend primarily (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from loans made to students (or their parents) to finance educational needs, generally having the following characteristics: (1) the loans have standardized terms; (2) the loans are obligations of numerous borrowers and accordingly represent a very diversified pool of obligor credit risk; (3) the repayment stream on such loans is primarily determined by a contractual payment schedule, with early repayment on such loans predominantly dependent upon interest rates and the income of borrowers following the

commencement of amortization; and (4) such loans may be fully or partially insured or reinsured by the United States Department of Education.

"Subordinated Management Fee" means the fee payable to the Collateral Manager in arrears on each Quarterly Distribution Date pursuant to the Collateral Management Agreement, in an amount equal to 0.05% *per annum* of the Quarterly Asset Amount for such Quarterly Distribution Date; *provided* that the Subordinated Management Fee will be payable on each Distribution Date only to the extent of funds available for such purpose in accordance with the Priority of Payments. Any accrued but unpaid Subordinated Management Fee will be deferred. Any unpaid Subordinated Management Fee that is deferred (whether as a result of the operation of the Priority of Payments as described herein or at the option of the Collateral Manager) shall be paid on the next succeeding Quarterly Distribution Date(s) to the extent funds are available for such purpose in accordance with the Priority of Payments, until such unpaid fee is paid in full and shall not accrue interest. Any Subordinate Management Fee accrued but not paid prior to the resignation or removal of a Collateral Manager shall continue to be payable to such Collateral Manager on the Quarterly Distribution Date immediately following the effectiveness of such resignation or removal.

"Subprime Automobile Securities" means Asset-Backed 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 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.

"Subsequent Due Period Interest Collection Amount" means on any Quarterly Distribution Date the lesser of (i) the excess (if any) of the amount required to make all distributions under clauses (1) through (16) of the Interest Proceeds Waterfall over the Interest Proceeds (excluding clause 10 of the definition of "Interest Proceeds") on such Quarterly Distribution Date, and (ii) the amount on deposit in the Interest Collection Account on the Business Day prior to such Quarterly Distribution Date which consists of Interest Proceeds attributable to the Due Period for the next subsequent Quarterly Distribution Date.

"Synthetic Security" means (i) each Credit Default Swap, and (ii) any swap transaction (which may be a credit default swap, a total return swap or a combination of both) or other credit derivative (or any combination of the foregoing) entered into by the Issuer with, a Synthetic Security Counterparty (or purchased from or entered into by a trust which is the issuer of the Synthetic Security with a Synthetic Security Counterparty) which investment contains a probability of default, recovery upon default and expected loss characteristics closely correlated to one or more Reference Obligations or Reference Obligors (or expected loss characteristics corresponding to losses incurred above and/or below specified thresholds with respect to an entire pool of Reference Obligations) or an index of Reference Obligations or Reference Entities, but which may provide for a different maturity, interest rate or other non-credit characteristics than such Reference Obligation(s) (if any); *provided* that (a) such Synthetic Security shall not provide for any payment by the Issuer after the date on which it is pledged to the Trustee unless such security is a Credit Default Swap or a Defeased Synthetic Security; (b) such Synthetic Security has a Moody's Rating and a Standard & Poor's Rating or the Rating Condition with respect to Standard & Poor's has been satisfied or such Synthetic Security is a Form Approved Synthetic Security; (c) if such Synthetic Security is not a Single Obligation Synthetic Security that is a Form Approved Synthetic Security, the Trustee has been notified in writing of the Applicable Recovery Rate and Moody's Rating

Factor assigned by Moody's and the Applicable Recovery Rate assigned by Standard & Poor's; (d) as of the date of the Issuer's Acquisition of or entry into the Synthetic Security, no amount receivable by the Issuer from the Synthetic Security Counterparty will be subject to withholding tax, unless the Synthetic Security Counterparty is required to make additional payments sufficient to cover (on an after-tax basis) any withholding tax imposed at any time; (e) the Acquisition (including the manner of Acquisition), ownership, entry into, holding, Disposition and enforcement of such Synthetic Security will not subject the Issuer to taxation on a net income tax basis in any jurisdiction outside of its jurisdiction of incorporation or cause the Issuer to be treated as engaged in a trade or business within the United States for U.S. Federal income tax purposes; (f) the agreements relating to such Synthetic Security contain "non-petition" and "limited recourse" provisions with respect to the Issuer; and (g) in the case of a Defeased Synthetic Security (other than a credit linked note), the agreements relating to such Synthetic Security provide for, on the first day of each payment period under such Synthetic Security, the full payment of all amounts owing for such period by the Synthetic Security Counterparty to the Issuer into the Synthetic Security Issuer Account. For the avoidance of doubt, any Single Obligation Synthetic Security, Index Synthetic Security or Multiple Obligation Synthetic Security shall be included in the definition of Synthetic Security and a CDO Obligation shall not be included in the definition of a Synthetic Security.

"Synthetic Security Collateral" means investments made pursuant to the Indenture in a CDS Reserve Account, Synthetic Security Counterparty Account or Synthetic Security Issuer Account in (1) Eligible Investments, (2) Asset-Backed Securities which satisfy the Synthetic Security Collateral Criteria or (3) any other security that satisfies the Rating Condition.

"Synthetic Security Collateral Criteria" means with respect to a security that either (a) it satisfies the Rating Condition or (b) each of the following criteria is satisfied:

- (i) such security is an Eligible Investment or (ii) such security is a CDO Obligation or Other ABS that, if included in the Collateral, would satisfy paragraph (1), paragraphs (3) through (4), paragraphs (6) through (10), paragraphs (12) through (17) and paragraph (34) of the Eligibility Criteria and is rated at least "Aa3" or "P-1" by Moody's, and at least "AA-" or "A-1" by Standard & Poor's;
- (ii) if such security is credited to the CDS Reserve Account in replacement of another security, the market value of such security is greater than or equal to the market value of the security being replaced;
- (iii) after inclusion of such security in the CDS Reserve Account, the Weighted Average Life (as defined in the Indenture but assuming that the Synthetic Security Collateral constitutes Collateral Debt Securities) of all Synthetic Security Collateral in the CDS Reserve Account is less than or equal to ten years;
- (iv) such security bears interest based on the London interbank offered rate for deposits of Dollars;
- (v) such security does not provide for the payment of interest less frequently than quarterly; and
- (vi) such security does not have a Stated Maturity occurring more than five years after the Stated Maturity of the Notes.

"Synthetic Security Counterparty" means MLI any Replacement CDS Counterparty and any entity that (i) is required to make one or more payments on a Synthetic Security and (ii) on the date such Synthetic Security is Acquired (or entered into) by the Issuer with such entity, such entity (or the guarantor of such entity's obligations under such Synthetic Security) (A) either has a short-term issuer credit rating from Standard & Poor's of at least "A-1+" (or if the counterparty posts collateral, "A-1") or a

long-term unsecured debt rating of at least "AA" (or if the counterparty posts collateral, "A+") by Standard & Poor's (provided, that such Synthetic Security Counterparty satisfies the other requirements of a Form-Approved Synthetic Security with respect to Standard & Poor's; and if such requirements are not satisfied, such entity or its guarantor must have ratings which satisfy the Rating Condition with respect to Standard & Poor's) and (B) has a long-term unsecured debt rating from Moody's of at least "A1" (and if it is "A1" not on credit watch for downgrade), or has a short-term unsecured debt rating from Moody's, if rated by Moody's, of "P-1" (and if it is "P-1," it is not on credit watch for downgrade), or the selection of such entity satisfies the Rating Condition with respect to any Rating Agency for which the foregoing requirement is not satisfied *provided, however*, that, with respect to any Synthetic Security that is issued by a trust, a special purpose vehicle or any similar entity that does not have a rating of its own, "Synthetic Security Counterparty" shall mean the swap provider that is buying or selling credit protection to such entity pursuant to a credit default swap agreement, a total return swap agreement or any similar agreement.

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

"Swap Period Termination Date" means the earlier to occur of (i) the first date after the Reinvestment Period on which the Aggregate Undrawn Amount is reduced to zero, (ii) the termination of the Class A-1 Swap pursuant to the ISDA Master Agreement or (iii) the Stated Maturity of the Class A-1 Notes.

"Tax Event" means an event that occurs if (i) any obligor is, or on the next scheduled payment date under any Collateral Debt Security any obligor will be, required to deduct or withhold from any payment under any Collateral Debt Security to the Issuer for or on account of any tax for whatever reason, and such obligor is not, or will not be, required to pay to the Issuer such additional amount as is necessary to ensure that the net amount actually received by the Issuer (free and clear of taxes, whether assessed against such obligor or the Issuer) will equal the full amount that the Issuer would have received had no such deduction or withholding occurred, (ii) any jurisdiction imposes net income, profits or a similar tax on the Issuer, (iii) a Hedge Counterparty or Synthetic Security Counterparty is required to deduct or withhold from any payment under the Hedge Agreement or a Synthetic Security on account of any tax and such Hedge Counterparty or Synthetic Security Counterparty is not obligated to make a gross up payment to the Issuer or the Issuer is required to make a "gross up" payment under a Hedge Agreement or under a Synthetic Security.

"Tax Lien Securities" means Asset-Backed 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 Asset-Backed Securities) on the cash flow from a pool of tax obligations owed by businesses and individuals to state and municipal governmental taxing authorities, generally having the following characteristics: (1) the obligations have standardized payment terms and require minimum payments; (2) the tax obligations are obligations of numerous borrowers and accordingly represent a very diversified pool of obligor credit risk; and (3) the repayment stream on the obligation is primarily determined by a payment schedule entered into between the relevant tax authority



and obligor, with early repayment on such obligation predominantly dependent upon interest rates and the income of the obligor following the commencement of amortization.

"Tax Materiality Condition" means a condition that will be satisfied during any Due Period with respect to any Quarterly Distribution Date if the sum of the following exceeds U.S.\$1,000,000: (i) the aggregate amount deducted or withheld for or on account of any tax by all obligors from any payment under any Collateral Debt Security (net of any gross-up payment made by such obligor to the Issuer), (ii) the aggregate amount of any net income, profits or similar tax imposed on the Issuer and (iii) the aggregate of any amounts of any "gross up" payments required to be paid by the Issuer on account of tax under a Synthetic Security or a Hedge Agreement and the deficiencies in the amounts received by the Issuer as a result of any deduction or withholding for or on account of any tax with respect to any payment by the Issuer or any Hedge Counterparty under a Hedge Agreement or by the Issuer or any Synthetic Security Counterparty under a Synthetic Security.

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

"Tobacco Litigation Securities" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend primarily (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from lawyer fee awards and state awards as a result of the settlement of litigation between the states and certain tobacco companies.

"Total Due Period Amortization" means, on any Quarterly Distribution Date the sum of the Specified CDS Principal Proceeds or, on or after the last day of the Reinvestment Period, the CDS Principal Proceeds for the Due Period plus the Distributable Principal Proceeds on such Quarterly Distribution Date.

"Total Hedging Premium Test Amount" means, as of any date of determination, the sum of the Hedging Premium Test Amounts for all Hedging Short Credit Default Swaps with respect to which a Net Issuer Hedged Long Fixed Amount is payable, *minus* the sum of the Hedging Premium Test Amounts for all Hedged Long Credit Default Swaps with respect to which a Net Counterparty Hedged Long Fixed Amount is payable (including in each case any Hedging Short Credit Default Swaps or Hedged Long Credit Default Swaps which the Issuer has committed to enter into or otherwise Acquire).

"Total Return Swap LIBOR Payment" means, for any Quarterly Distribution Date, LIBOR (with a Designated Maturity of three months) calculated on the aggregate notional amount of the Total Return Swap on the first day of the related Interest Period multiplied by the actual number of days elapsed in the related Interest Period divided by 360; *provided* that the notional amount of the Total Return Swap will be adjusted by any terminations and increases in the notional amount in accordance with the terms of the Total Return Swap.

"Total Senior Redemption Amount" means, as of any Quarterly Distribution Date, the aggregate amount required (without duplication) (a) to make all payments of accrued and unpaid amounts referred to in clauses (1) through (17) of the Interest Proceeds Waterfall and clauses (1) through (6) (but excluding any reference to clause 19 of the Interest Proceeds Waterfall) of the Principal Proceeds Waterfall, to pay all amounts payable as of such date (including any termination payments and any accrued interest thereon) by the Issuer to the Hedge Counterparty pursuant to any Hedge Agreement, to pay all amounts (including termination payments and interest accrued thereon) payable to the Credit Default Swap Counterparty, the Total Return Swap Counterparty and the Class A-1 Swap Counterparty under the ISDA Master Agreement, the Credit Swap, the Total Return Swap and the Class A-1 Swap, to pay any fees and expenses incurred by the Trustee or the Collateral Manager in connection with the sale of Collateral Debt Securities (including amounts reserved by the Trustee or the Collateral Manager to meet future obligations in connection with the discharge of the Indenture) and to pay any accrued and unpaid Senior Management Fees, but excluding payments to the Preferred Security Paying Agent for distribution to the Holders of Preferred Securities, (b) to redeem all the Notes on the scheduled Redemption Date at the applicable Redemption Prices, together with all accrued and unpaid interest to (but excluding) the date of redemption, and (c) solely in the case of an Auction Call Redemption pursuant to the Indenture, to make a payment to the Preferred Security Paying Agent for distribution to the Holders of Preferred Securities in accordance with the Priority of Payments in an amount equal to the Preferred Security Redemption Date Amount, if any (or such lesser amount as is agreed by a Special Majority-in-Interest of Holders of Preferred Securities at such time).

"TRS Replacement" means the total return swap, market value swap, guaranteed investment contract or similar replacement for the Total Return Swap.

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

"Trustee Fee" means the fee payable, in accordance with the Priority of Payments, to JPMorgan Chase Bank, National Association, in its capacities (or any successor to it in such capacities) as (i) Note Registrar, Paying Agents and Trustee under the Indenture, (ii) Collateral Administrator under the Collateral Administration Agreement and (iii) Preferred Security Paying Agent under the Preferred Security Paying Agency Agreement in an amount, for (i), (ii) and (iii) combined, equal to, for each Quarterly Distribution Date, 0.00675% *per annum* of the Quarterly Asset Amount for the related Due Period.

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

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

"Underlying Instruments" means the indenture or other agreement pursuant to which a Collateral Debt Security, Eligible Investment or Equity Security has been issued or created and each other agreement that governs the terms of or secures the obligations represented by such Collateral Debt Security, Eligible Investment or Equity Security or of which holders of such Collateral Debt Security, Eligible Investment or Equity Security are the beneficiaries. The ISDA Master Agreement, confirmation and other documents for a Defeased Synthetic Security shall constitute Underlying Instruments.

"Unhedged Short Credit Default Swap" means a Short Credit Default Swap (or portion of the Reference Obligation Notional Amount thereof) that is not a Hedging Short Credit Default Swap.

"Uninvested Proceeds" means at any time, the net proceeds received by the Issuer on the Closing Date from the initial issuance of the Notes and the Preferred Securities, to the extent such proceeds (i) have not been deposited in the Expense Account or the Reserve Account, (ii) are not subject to a commitment to invest, or have not been invested in, Collateral Debt Securities, in each case in accordance with the Indenture or (iii) have not been deposited in a Synthetic Security Counterparty Account or the CDS Reserve Account.

"Unpaid Amounts" means, (i) with respect to each of the Issuer and (a) Synthetic Security Counterparty, scheduled amounts accrued but not yet paid under the Credit Default Swaps, and (ii) with respect to the Issuer and a Hedge Counterparty, scheduled amounts accrued but not paid under the Hedge Agreement.

"Unpaid Class A Distribution Amount" means the portion of any Class A Distribution Amount not paid on a Quarterly Distribution Date.

"Unpaid Interest Amounts" means, the Class D Unpaid Interest Amount, the Class E Unpaid Interest Amount, the Class F Unpaid Interest Amount and/or the Class G Unpaid Interest Amount.

"Unreimbursed Deferred Interest Amount" means, for any date of determination, the sum of the amount of each Interest Shortfall (if any) on each Reference Obligation payment date *plus* interest (to the extent that the underlying documents provide for the payment of 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, any interest being compounded on each Reference Obligation payment date, *minus* all reimbursements of each Interest Shortfall amounts and all interest paid thereon pursuant to its underlying document. 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.

"Unscheduled Fixed Rate Principal Proceeds" means Disposition Proceeds of Fixed Rate Securities that are Credit Risk Securities and any unscheduled principal prepayment of a Fixed Rate Security received by the Issuer.

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

"Voting Factor" means at any time, a number obtained by (a) calculating the percentage obtained by *multiplying* 4.99% by the number of Reg Y Institutions (*provided* that such Reg Y Institution has identified itself as such in writing to the Trustee) (each, a "Voting Constrained Holder of Securities") as to which the ratio (expressed as a percentage) of the number of Preferred Securities held by such Reg Y Institution at such time *divided by* the aggregate number of Preferred Securities held by all Holders of Preferred Securities at such time exceeds 4.99% (or would, after giving effect to the calculation of the "Voting Factor" for each Holder of Preferred Securities, 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 Preferred Securities held by all Holders of Preferred Securities other than Voting Constrained Holder of Securities by (ii) the aggregate number of Preferred Securities held by all Holders of Preferred Securities; *provided* that, for the purposes of this definition and the definitions of "Voting Percentage" and "Voting Preferred Securities," any Preferred Securities owned by the Issuer, the Co-

Issuer or any other obligor upon the Notes or any affiliate thereof will be disregarded and deemed not to be outstanding.

"Voting Percentage" means in respect of a Holder of Preferred Securities at any time, (a) for any Holder of Preferred Securities which is a Reg Y Institution, the lesser of (i) 4.99% and (ii) a percentage equal to the number of Preferred Securities held by such Reg Y Institution at such time *multiplied by* the Voting Factor at such time *divided by* the aggregate number of Preferred Securities held by all Holders of Preferred Securities at such time and (b) for any Holder of Preferred Securities other than a Reg Y Institution, a percentage equal to the number of Preferred Securities held by such Holder of Preferred Securities at such time *multiplied by* the Voting Factor at such time *divided by* the aggregate number of Preferred Securities held by all Holders of Preferred Securities at such time.

"Voting Preferred Securities" means at any time, the number of Preferred Securities equal to the Voting Percentage of such Holder of Preferred Securities at such time *multiplied by* the aggregate number of Preferred Securities held by all Holders of Preferred Securities at such time.

"Warehouse Agreement" means the Warehouse Agreement dated as of May 26, 2006 between Merrill Lynch International and the Collateral Manager, as amended.

"WAS Excess/Shortfall" means, as of any date of determination, the positive or negative amount, as the case may be, which is the product of (a) either (i) a number equal to the excess, if any, of the Adjusted Weighted Average Spread over 1.67%, (ii) if the Adjusted Weighted Average Spread is less than 1.67%, a negative number equal to such shortfall or (iii) if the Adjusted Weighted Average Spread is equal to 1.67%, zero, multiplied by (b) the aggregate Principal Balance of all Collateral Debt Securities (other than Defaulted Securities, Written Down Amounts or Deferred Interest PIK Bonds) that are not Credit Default Swaps.

"Writedown Amount" has the meaning given to such term in the Credit Default Swap.

"Written Down Amount" means, as of any date of determination with respect to any Written Down Security, the *pro rata* share for such Written Down Security (based on its principal amount relative to the aggregate principal amount of all other securities secured by the same pool of collateral that rank *pari passu* with such Collateral Debt Security) of the excess of the aggregate par amount of such Collateral Debt Security and all other securities secured by the same pool of collateral that rank *pari passu* with or senior in priority of payment to such Collateral Debt Security over the aggregate par amount (including reserved interest or other amounts available for overcollateralization) of all collateral securing such securities (excluding defaulted collateral that has been charged off), as determined by the Collateral Manager using customary procedures and information available in the servicer reports received by the Trustee relating to such Written Down Security. Interest and other distributions on a Written Down Security shall be allocated between the Written Down Amount and the remaining Principal Balance in the manner provided in the Underlying Instruments and the servicer reports received by the Trustee relating to such Written Down Security or, if no such allocation is provided therein, shall be allocated *pro rata* between such Written Down Amount and such Principal Balance, and in each case the Trustee may request (and rely on) information regarding such allocation provided by the Collateral Manager.

"Written Down Security" means as of any date of determination, any Collateral Debt Security as to which the aggregate par amount of such Collateral Debt Security and all other securities secured by the same pool of collateral that rank *pari passu* with or senior in priority of payment to such Collateral Debt Security exceeds the aggregate par amount (including reserved interest or other amounts available for overcollateralization) of all collateral securing such securities (excluding defaulted collateral that has been charged off), as determined by the Collateral Manager using customary procedures and information available in the servicer reports received by the Trustee relating to such Written Down Security.

**Exhibit B**

**Initial Form of RMBS/CMBS Form Approved Confirmation for Long Credit Default Swaps  
as of September 20, 2006 (subject to modification)**

MERRILL LYNCH INTERNATIONAL  
MERRILL LYNCH FINANCIAL CENTRE  
2 KING EDWARD STREET  
LONDON EC1A 1HQ  
(REGISTERED NO. 2312079)



September 26, 2006

Octans I CDO Ltd.  
c/o Walkers SPV Limited  
P.O. Box 908GT  
Walkers House  
Mary Street  
George Town, Grand Cayman  
Cayman Islands

**Re: Structured Products Credit Default Swap<sup>1</sup>**

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 Octans I 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 (each, a "**Credit Default Swap**") 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

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<sup>1</sup> This form is designed for use primarily with a Reference Obligation that is a residential mortgage backed security ("RMBS") or a commercial mortgage backed security ("CMBS").

the provisions of the Credit Derivatives Definitions, the Indenture and any Confirmation, the provisions in the Confirmation shall prevail with respect to the Transaction to which such Confirmation relates. Further, in the event of any inconsistency between the provisions of the Credit Derivatives Definitions and the Indenture, the Credit Derivatives Definitions shall prevail.

This Master Confirmation supplements, forms a part of, and is subject to, the ISDA Master Agreement, dated as of September 26, 2006 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.

The terms of each Transaction to which this Master Confirmation relates are as follows:

**1. General Terms:**

Trade Date: For each Transaction, the Trade Date as set forth in the Letter of Execution.

Effective Date: For each Transaction, the Effective Date as set forth in the Letter of Execution.

Scheduled Termination Date: For each Transaction, subject to paragraph 5, the Legal Final Maturity Date of the Reference Obligation.

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;

*provided* that the occurrence of the Termination Date shall be without prejudice to the respective payment obligations of the parties under "Retention of Writedown Amounts" and "Retention of Interest Shortfall Payments" below which shall continue and remain in effect to the extent set forth therein notwithstanding the occurrence of a Termination Date.

Floating Rate Payer:	Seller.
Fixed Rate Payer:	Buyer.
Calculation Agent:	Buyer, except if an Event or Default or Termination Event has occurred and is continuing and Buyer is the Defaulting Party or sole Affected Party, as applicable, 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) the 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; <i>provided</i> that (i) the Trustee on behalf of the 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 hereunder) and (ii) if the Trustee changes the location of the Corporate Trust Office, the Trustee on behalf of the 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. Notwithstanding Section 2.2 of the Credit Derivatives Definitions to the contrary, no Successor to any Reference Entity shall become the "Reference Entity" under this Master Confirmation unless such successor succeeds to all of the rights and obligations of such Reference Entity under the related Reference Obligation.
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 balance of Deliverable Obligations Delivered to Seller (as adjusted by the Relevant Amount, if any) 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 the day, if any, 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;
- (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"; and
- (v) decreased on each Delivery Date by an amount equal to the relevant Exercise Amount minus the amount determined pursuant to paragraph (b) of "Physical Settlement Amount" below, provided that if there is any Relevant Amount, the Exercise Amount will also be deemed to be decreased by such Relevant Amount (or increased by the absolute value of such Relevant Amount if such Relevant Amount is negative) with effect from such Delivery Date;

*provided* that if the Reference Obligation Notional Amount would be less than zero, it shall be deemed to be zero.

Initial Payment: Not applicable.

**2. 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, subject to paragraph 5, if applicable.

Fixed Rate Payer Period End Date: The first day of each Reference Obligation Calculation Period.

Fixed Rate Payer Payment Dates: If such Reference Obligation is not a U.S. CMBS security as identified in the Letter of Execution, each day falling five Business Days after a Reference Obligation Payment Date; *provided* that the final Fixed Rate Payer Payment Date shall fall on the earlier of (x) the fifth Business Day following the Effective Maturity Date and (y) the Stated Maturity of the Notes.

If such Reference Obligation is a U.S. CMBS security as identified in the Letter of Execution, after each Reference Obligation Payment Date, the next following 25th calendar day of the month, except that when a Reference Obligation Payment Date falls on or after the 25th calendar day of a month, the Fixed Rate Payer Payment Date in respect of such Reference Obligation Payment Date shall be the 25th calendar day of the next following month; *provided* that the final Fixed Rate Payer Payment Date shall fall on the fifth Business Day following the Effective Maturity Date.

Fixed Amount: With respect to any Fixed Rate Payer Payment Date, the product of:

(a) the Fixed Rate;

(b) (1) if the Reference Obligation is a Floating Rate Reference Obligation, 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

(2) if the Reference Obligation is a Fixed Rate Reference Obligation, the Reference Obligation Notional Amount outstanding on the last day of the Reference Obligation Calculation Period related to such Fixed Rate Payer Payment Date, as adjusted for any increases or decreases of the Reference Obligation Notional Amount on the Reference Obligation Payment Date immediately preceding the related Reference Obligation Payment Date; and

- (c) the actual number of days in the related Fixed Rate Payer Calculation Period divided by 360.

Floating Rate Reference  
Obligation/Fixed Rate Reference  
Obligation:

For each Transaction, whether a Reference Obligation is a Floating Rate Reference Obligation or a Fixed Rate Reference Obligation shall be specified in the Letter of Execution.

Additional Fixed Amount Payment  
Dates:

In relation to an Additional Fixed Payment Event,

- (i) with respect to an Interest Shortfall Payment Reimbursement Amount,

- (a) each Fixed Rate Payer Payment Date;

- (b) in relation to each Additional Fixed Payment Event that is an Interest Shortfall Reimbursement 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; and

- (ii) with respect to a Writedown Reimbursement Payment Amount or Principal Shortfall Reimbursement Payment Amount, the first Quarterly Distribution falling at least two Business Days after Buyer has received notification from Seller or the Calculation Agent of the occurrence of such Additional Fixed Payment Event that is a Writedown Reimbursement or a Principal Shortfall

## Reimbursement.

### Additional Fixed Payments:

Following the occurrence of an Additional Fixed Payment Event in respect of the Reference Obligation, (i) with respect to an Interest Shortfall Payment Reimbursement Amount, 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) and (ii) with respect to a Writedown Reimbursement Payment Amount or a Principal Shortfall Reimbursement Amount, Buyer shall pay the relevant Additional Fixed Amount to Seller on the Additional Fixed Payment Date, in each case 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 one calendar year after the Effective Maturity Date.

### Additional Fixed Payment Event:

The occurrence, on or after the Effective Date and on or before the earlier of (x) the day that is one year after the Effective Maturity Date and (y) the Stated Maturity of the Notes, 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).

For the avoidance of doubt, each Writedown Reimbursement Payment Amount, Principal Shortfall Reimbursement Payment Amount or Interest Shortfall Reimbursement Payment Amount (as applicable) shall be calculated using the Applicable Percentage which takes into account the aggregate adjustment made to the Applicable Percentage in respect of all Delivery

Dates that have occurred prior to the date of such calculation.

**3. Floating Payments:**

Floating Rate Payer: Seller

Floating Rate Payer Payment Dates: In relation to a Floating Amount Event, (i) with respect to an Interest Shortfall Payment Amount, the first Fixed Rate Payer Payment Date falling at least two Business Days after delivery of a notice by the Calculation Agent to the parties or a notice by Buyer to Seller that the related Interest Shortfall Payment Amount is due, and (ii) with respect to a Writedown Amount or Principal Shortfall Amount, the first Quarterly Distribution Date falling at least two Business Days after delivery of a notice by the Calculation Agent to the parties or a notice by Buyer to Seller that the related Writedown Amount or Principal Shortfall Amount is due, in each case which notice shall satisfy the requirements of a Notice of Publicly Available Information, and show in reasonable detail how such relevant Floating Amount was calculated; *provided* that (x) in the case of a Floating Amount Event that occurs on the Effective Maturity Date, such notice must be given on or prior to the fifth Business Day following the Effective Maturity Date and (y) if a Floating Rate Payer Payment Date in respect of which notice is given that a Floating Amount is due as provided above would otherwise occur after the Stated Maturity of the Notes, such Floating Rate Payer Payment Date shall occur on the Stated Maturity of the Notes.

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, a Failure to Pay Principal or an Interest Shortfall.

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).

For the avoidance of doubt, each Writedown Amount, Principal Shortfall Amount or Interest Shortfall Payment Amount (as applicable) shall be calculated using the Applicable Percentage which takes into account the aggregate adjustment made to the Applicable Percentage in respect of all Delivery Dates that have occurred prior to the date of such calculation.

Retention of Writedown Amounts:

In the event that at any time the short-term unsecured debt rating of Buyer and the Credit Support Provider for the Buyer is less than the Minimum Swap Counterparty Rating, all Writedown 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 relating to each Transaction for which an Event Determination Date has occurred, and (ii) any Writedown Amount for which an Additional Fixed Payment has been paid but only by the extent that such Writedown Amount has been reimbursed) shall be deposited by the Trustee into the subaccount of the Synthetic Security Issuer Account for the deposit of "Writedown Amounts" (the "**Writedown Subaccount**").

Amounts in the Writedown Subaccount with respect to a Transaction and a specific Writedown Amount shall be retained by the Trustee until the earlier of one year from the date on which the applicable Writedown occurred (in each case as certified by the Calculation Agent to the parties) or the date on which the unpaid outstanding principal amount of each Class of Notes has been paid in full (such date, the "**Writedown Extended End Date**" and the amount of any Writedown Amounts retained in the Writedown Subaccount that are Implied Writedown Amounts, the "**Aggregate Retained Implied Writedown Amount**"). Notwithstanding the occurrence of an Early Termination Date, the obligations of the Buyer, the Seller and the Trustee described in this section "Retention of Writedown Amounts" shall continue and remain in effect until the Writedown Extended End Date has occurred in respect of all Transactions with respect to which a Writedown has occurred and, for purposes of this section "Retention of Writedown Amounts", calculations of the Writedown Amount shall

be made using the Reference Obligation Notional Amount as of the Early Termination Date, adjusted to reflect such reductions or increases therein as would have occurred pursuant hereto if such Early Termination Date had not occurred.

Any amounts in the Synthetic Security Issuer Account shall be invested by the Trustee at the direction of the Buyer in accordance with the terms of the Indenture and the MLI Synthetic Security Issuer Account Control Agreement, dated as of September 26, 2006, among Buyer, Seller and the custodian specified therein.

Amounts in the 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 (which become due, for the avoidance of doubt with respect to each Transaction, on or prior to, the Writedown Extended End Date (if any)), (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 (iii) to pay to the Buyer any remaining amount in the Writedown Subaccount with respect to the applicable Writedown Amount on the applicable Writedown Extended End Date (if any) or, if earlier, the date on which an Event Determination Date occurs (other than related to a Writedown) with respect to such Transaction or (iv) to pay to the Buyer any remaining amount in the Writedown Subaccount on the Regular End Date. As of any date of determination in respect of any Transaction, the remainder of (x) the aggregate amount of Writedown Amounts credited to the Writedown Subaccount in respect of such Transaction since the Effective Date minus (y) the aggregate amount of all disbursements made by the Trustee in respect of such Transaction in accordance with the preceding sentence is referred to herein as the "Retained Writedown Amount."

Retention of Interest Shortfall  
Payments:

In the event that at any time the short-term unsecured debt rating of Buyer and the Credit Support Provider for the Buyer is less than the Minimum Swap Counterparty Rating, all 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 Interest Shortfall Payment Amount relating to each Transaction for which an Event Determination Date has occurred, and (ii) any Interest Shortfall Payment



Amount for which an Additional Fixed Payment has been paid but only by the extent that such Interest Shortfall Payment Amount has been reimbursed) shall be deposited by the Trustee into the subaccount of the Synthetic Security Issuer Account for the deposit of "Interest Shortfall Payment Amounts" (the "**Interest Shortfall Subaccount**").

Amounts in the Interest Shortfall Subaccount with respect to a Transaction and a specific Interest Shortfall shall be retained by the Trustee until the earlier of one year from the date on which the applicable Interest Shortfall occurred (in each case as certified by the Calculation Agent to the parties) or the date on which the unpaid outstanding principal amount of each Class of Notes has been paid in full (such date, the "**Interest Shortfall Extended End Date**"). Notwithstanding the occurrence of an Early Termination Date, the obligations of the Buyer, the Seller and the Trustee described in this section "Retention of Interest Shortfall Amounts" shall continue and remain in effect until the Interest Shortfall Extended End Date has occurred in respect of all Transactions with respect to which an Interest Shortfall has occurred.

Any amounts in the Synthetic Security Issuer Account shall be invested by the Trustee at the direction of the Buyer in accordance with the terms of the Indenture and the MLI Synthetic Security Issuer Account Control Agreement, dated as of September 26, 2006, among Buyer, Seller and the custodian specified therein.

Amounts in the 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 (which become due, for the avoidance of doubt with respect to each Transaction, on or prior to, the Interest Shortfall Extended End Date (if any)), (ii) to pay to the Buyer any remaining amount in the Interest Shortfall Subaccount on the applicable Interest Shortfall Extended End Date (if any) or, if earlier, the date on which an Event Determination Date occurs with respect to such Transaction, or (iii) to pay to the Buyer any remaining amount in the Interest Shortfall Subaccount on the Regular End Date.

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 Servicer Reports in respect of the Reference Obligation and, in respect of a Distressed Ratings Downgrade Credit Event only, any public communications by any of the Rating Agencies in respect of the Reference Obligation shall also be deemed Public Sources.

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) the Conditions to Settlement may be satisfied on more than one occasion;
- (b) multiple Physical Settlement Amounts may be payable by Seller;
- (c) Buyer, when providing a Notice of Physical Settlement, must specify an Exercise Amount and the Exercise Percentage;
- (d) if Buyer 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 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

- (e) any Notice of Physical Settlement shall be delivered no later than 30 calendar days after the fifth Business Day following the earlier of the Effective Maturity Date and the Optional Step-up Early Termination Date (if applicable); and
- (f) if any Physical Settlement Date would otherwise occur after the Stated Maturity of the Notes, such Physical Settlement Date shall occur on the Stated Maturity of the Notes.

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."

Section 3.3 of the Credit Derivatives Definitions is amended so that the following is added as a subclause (d):

"(d) the expiration of any applicable grace period for a Failure to Pay Principal Credit Event."

Credit Events:

The following Credit Events shall apply to each Transaction (and the first sentence of Section 4.1 of the Credit Derivatives Definitions 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

Obligation: Reference Obligation Only

#### 4. 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, yield maintenance provisions 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.

WAC Cap Interest Provision: For each Transaction, "Applicable" or "Not Applicable" as set forth, with respect to such Transaction, in the applicable Letter of Execution. For this purpose, "WAC Cap" means a weighted average coupon or weighted average rate cap provision (however defined) of the Underlying Instruments that limits, increases or decreases the interest rate or interest entitlement, as set out in the Underlying Instruments on the Effective Date without regard to any subsequent amendment.

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 (however described in the Underlying

Instruments) that are attributable to the Reference Obligation minus

- (b) the Aggregate Implied Writedown Amount (if any)

and 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 (i) unpaid amounts in respect of accrued interest on prior Reference Obligation Payment Dates, or (ii) any prepayment penalties or yield maintenance provisions.

The Expected Interest Amount shall be determined:

- (x) if WAC Cap Interest Provision is applicable, after giving effect to any WAC Cap; and
- (y) if WAC Cap Interest Provision is not applicable, without giving effect to any WAC Cap; and

in either case without regard to the effect of any provisions (however described) of such Underlying Instruments that otherwise permit the limitation of due payments to distributions of funds available from proceeds of the Underlying Assets, or 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 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 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.

Interest Shortfall Reimbursement Payment Amount: The amount determined pursuant to the Interest Shortfall Cap Annex.

## 5. Consequences of Step-up of the Reference Obligation Coupon

Step-up provisions: Applicable

Step-up: On any day, an increase in the Reference Obligation Coupon due to the failure of the Reference Entity or a third party to exercise, in accordance with the Underlying Instruments, a "clean-up call" or other right

to purchase, redeem, cancel or terminate (however described in the Underlying Instruments) the Reference Obligation.

Non-Call Notification Date:

The date of delivery by the Calculation Agent to the parties or by Buyer to Seller of a Non-Call Notice.

Non-Call Notice:

A notice given by the Calculation Agent to the parties or by Buyer to Seller that the Reference Obligation has not been purchased, redeemed, cancelled or terminated by the Reference Entity or a third party, in accordance with the Underlying Instruments, pursuant to a "clean-up call" or other right to purchase, redeem, cancel or terminate (however described in the Underlying Instruments) the Reference Obligation, which failure will result in the occurrence of a Step-up.

Increase of the Fixed Rate:

Subject to "Optional Step-up Early Termination" below, upon the occurrence of a Step-up, the Fixed Rate will be increased by the number of basis points by which the Reference Obligation Coupon is increased due to the Step-up, such increase to take effect as of the Fixed Rate Payer Payment Date immediately following the fifth Business Day after the Non-Call Notification Date.

Optional Step-up Early Termination:

No later than five Business Days after the Non-Call Notification Date, Buyer shall notify Seller (such notification, a "Buyer Step-up Notice") whether Buyer wishes to continue the Transaction at the increased Fixed Rate or to terminate the Transaction.

If Buyer elects to terminate the Transaction, the date of delivery of the Buyer Step-up Notice shall be the Scheduled Termination Date (such date, the "Optional Step-up Early Termination Date") and in such case "Increase of the Fixed Rate" in this paragraph 5 shall not apply.

No amount shall be payable by either party in respect of the Optional Step-up Early Termination Date other than any Fixed Amount, Additional Fixed Amount, Floating Amount or Physical Settlement Amount calculated in accordance with the terms hereof. For the avoidance of doubt, the obligation of a party to pay any amount that has become due and payable under the Transaction and remains unpaid as at the Optional Step-up Early Termination Date shall not be affected by the occurrence of the Optional Step-up Early Termination Date.

If Buyer fails to deliver the Buyer Step-up Notice by the fifth Business Day after the Non-Call Notification Date, Buyer shall be deemed to have elected to continue the Transaction at the increased Fixed Rate as described under "Increase of the Fixed Rate."

If Buyer elects, or is deemed to have elected, to continue the Transaction at the increased Fixed Rate, the Transaction shall continue.

## 6. Settlement Terms

Settlement Method: Physical Settlement

### Terms Relating to 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 relevant 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.

For the avoidance of doubt, for the purposes of calculating the Physical Settlement Amount, the Exercise Amount shall be deemed to be adjusted pursuant to the final paragraph of the definition of "Exercise Amount", but shall not be subject to any adjustment or recalculation following the relevant Delivery Date.

Delayed Payment:

With respect to a Delivery Date, if a Servicer Report that describes a Delayed Payment is delivered to holders of the Reference Obligation or to the Calculation Agent on or after such Delivery Date, Buyer will pay the applicable Delayed Payment Amount to Seller no later than five Business Days following such Delayed Payment.

Escrow:

Applicable

Non-delivery by Buyer or occurrence of the Effective Maturity Date:

If Buyer has delivered a Notice of Physical Settlement and:

- (a) Buyer does not Deliver in full the Deliverable Obligations specified in that Notice of Physical Settlement on or prior to the Physical Settlement Date; or
- (b) the Effective Maturity Date occurs after delivery of the Notice of Physical Settlement but before Buyer Delivers the Deliverable Obligations specified in that Notice of Physical Settlement;

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.

**7. Additional Provisions:**

**(a) *Delivery of Servicer Report.***

The Calculation Agent agrees to provide Seller with a copy of the most recent Servicer Report, 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 Servicer Reports. 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).

**(b) *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 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 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. For the avoidance of doubt, if an Interest Shortfall Amount is not explicitly set out in the Servicer Report but the Calculation Agent determines that an Interest Shortfall has occurred on the basis of information in such Servicer Report, then the relevant Interest Shortfall Amount shall be calculated by the Calculation Agent on the basis of such information. 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.

**(c) *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 by either party. For the avoidance of doubt, no amounts shall be payable by either party pursuant to Section 2(e) of the Agreement. No interest shall accrue on any adjusted amount. 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 Quarterly Distribution Date following such notification (each, a "**Relevant Determination Adjustment Payment Date**").

In the event that the Calculation Agent has not yet received and is not otherwise able (using its reasonable efforts) to obtain 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 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 extent that such corrections or adjustments have an impact on calculations pursuant to the relevant Transaction 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. No interest shall accrue on any adjusted amount. The Calculation Agent shall 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 Seller in respect of corrections and adjustments shall be payable only from funds available for such purpose in the Synthetic Security Counterparty Account and, to the extent that such funds are insufficient to make such payment, the deficiency shall be deferred and shall be paid on the first day when such funds are available in the Synthetic Security Counterparty 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.

(d) *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.

(e) *Early Termination Date.*

Notwithstanding Section 6(e) of the Agreement to the contrary, prior to each proposed Redemption Date for an Auction Call Redemption, Optional Redemption or a Tax Redemption or prior to a liquidation of Collateral following an Event of Default under the Indenture, all amounts that would be payable with respect to the Transactions under this Master Confirmation on any Early Termination Date under Section 6(e) of the Agreement shall be determined as follows:

(i) The Seller (or the Collateral Manager on its behalf) or the Trustee shall, on or prior to 5:00 p.m., New York time, on the tenth Business Day prior to the proposed Swaps Liquidation Date provide a written notice to the Calculation Agent (the "**Swap Termination Payment Notice**"), with a copy to the Buyer, requesting that the Calculation Agent 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 Calculation Agent'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 Calculation Agent shall, on or prior to 5:00 p.m., New York time, on the eighth Business Day prior to such Swaps Liquidation Date, provide written notice specifying the Swap Termination Payment and the Designated Unpaid Amounts payable on the Swaps Liquidation Date by the Seller to the Buyer or by the Buyer to the Seller (a "**Swap Termination Notice**");

(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 seventh 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. The Trustee shall accept a Swap Termination Payment Notice only if the Collateral Manager notifies the Seller in writing that the Collateral Manager has made a determination (the "**Acceptance Standard**") that (i) in the case of an Auction Call Redemption, an Optional Redemption or a Tax Redemption, the requirements of Section 9.1 of the Indenture (in the case of an Optional Redemption or Tax Redemption) or Section 9.7 of the Indenture (in the case of an Auction Call Redemption) would be satisfied or in the case of a liquidation of the Collateral following an Event of Default, the requirements of Section 5.5(a) of the Indenture 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 Seller (or the Collateral Manager on its behalf) shall attempt to obtain firm bids on the sixth Business Day prior to the Swaps Liquidation Date (on or prior to 5:00 p.m., New York time) with respect to the Reference Portfolio in whole or with respect to sub-pools of the 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. The Buyer shall deliver as soon as commercially practicable thereafter a statement of the Designated Unpaid Amounts and the Seller (or the Collateral Manager on its behalf) shall deliver as soon as commercially practicable thereafter each of the firm bids obtained from the Eligible Dealers to the Buyer (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) (the "**Replacement Bid**"), would result in an amount which, together with other available funds (after taking into account any payment by the Seller to such Eligible Dealers and the Designated Unpaid Amounts), would satisfy the Acceptance Standard, the Seller shall deliver a notice of acceptance (the "**Termination Acceptance Notice**") to the Buyer by 3:00 p.m. New York time on the fourth Business Day prior to the Swaps Liquidation Date. The Buyer may, on or prior to 5:00 p.m. New York time on the fourth Business Day prior to the Swaps Liquidation Date, either elect (i) to replace the Seller with such Eligible Dealers under this Master Confirmation based upon the Replacement Bid or (ii) to pay to the Seller (or have the Seller pay to the Buyer) a termination amount equal to the Replacement Bid. In the event that the Buyer elects to replace the Seller with an Eligible Dealer, the Seller (x) shall make commercially reasonable efforts to transfer and assign the Transactions (including, pursuant to an assumption or novation agreement, reasonably acceptable to the Buyer, between the Seller and the Eligible Dealer) on or prior to the sixth Business Day before the Redemption Date and (y) shall make any termination payment to the related Eligible Dealer and (z) 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) If the amount that the Seller would be paid by Eligible Dealers would not result in sufficient funds (after taking into account any payment by the Seller to such Eligible Dealers and the Designated Unpaid Amounts) to satisfy the Acceptance Standard, the valuation procedure described above shall be conducted prior to each subsequent proposed Redemption Date or proposed date for liquidation of the Collateral after an Event of Default on the same schedule set forth above. In no event shall the Transactions be terminated or any Swap Termination Payment be payable by the Seller unless, (i) in the case of an Auction Call Redemption, an Optional Redemption or a Tax Redemption, the notice of redemption has become irrevocable pursuant to Section 9.4 of the Indenture, and (ii) in the case of an Event of Default, the liquidation of the Collateral has commenced pursuant to Section 5.5(a) of the Indenture.

(f) *The Seller (or the Collateral Manager on its behalf) may at any time terminate a Transaction pursuant to Section 12.1 of the Indenture pursuant to the following provisions:*

(i) The Seller (or the Collateral Manager on its behalf) pursuant to Section 12.1 of the Indenture shall provide a written notice to the Buyer (on or prior to 5:00 p.m. on the sixth Business Day prior to the Transaction Termination Date) requesting that the Buyer specify the termination payment which the Buyer would pay to the Seller or the 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) (the "**Transaction Termination Payment**") if all obligations of the parties with respect to such Transaction were to terminate on the date (the "**Transaction Termination Date**") specified in such notice (which payment shall exclude Unpaid Amounts). The Buyer's calculation of the Transaction 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 such Transaction Termination Date, and (ii) that a Credit Event may occur on or prior to such Transaction Termination Date and (y) specify all amounts (including any Unpaid Amounts) that will be due and payable by Buyer or Seller on or prior to such Transaction Termination Date (such amounts, "**Transaction Designated Unpaid Amounts**");

(ii) The Buyer shall provide written notice specifying the Transaction Termination Payment and the Transaction Designated Unpaid Amounts payable (on the Transaction Termination Date) by the Seller to the Buyer or by the Buyer to the Seller on or prior to 5:00 p.m., New York time, on the fifth Business Day prior to the Transaction Termination Date;

(iii) If on or prior to 5:00 p.m., New York time, on the fourth Business Day prior to the Transaction Termination Date, the Seller (or the Collateral Manager on its behalf) accepts the Buyer's determination of such Transaction Termination Payment in order to terminate such Transaction, on the Transaction Termination Date, the Seller or the Buyer (as applicable) shall pay such Transaction Termination Payment (and the parties shall pay any Transaction Designated Unpaid Amounts due hereunder) and, upon such payments, all obligations of the parties with respect to such Transaction under this Master Confirmation shall terminate on and as of such Transaction Termination Date;

(iv) If the Seller (or the Collateral Manager on its behalf) does not accept (by such deadline) the determination of such Transaction Termination Payment, the Seller (or the Collateral Manager on its behalf) may attempt to obtain firm bids as soon as commercially practicable from Eligible Dealers to replace the Seller under such Transaction (under a confirmation governed by the Standard Terms) and the Seller may deliver a firm bid acceptable to Seller from an Eligible Dealer to the Buyer on or prior to 5:00 p.m., New York time, on the second Business Day prior to the Transaction Termination Date. On the Transaction Termination Date, the Seller shall make commercially reasonable efforts to transfer and assign to the Eligible Dealer with such firm bid (the "**Transaction Replacement Seller**") all rights under such Transaction (under a confirmation governed by the Standard Terms), the Eligible Dealer shall enter into an assumption or a novation agreement acceptable to the Buyer, the Seller shall cause all amounts applicable to such Transaction in the Synthetic Security Issuer Account to be paid to the Buyer, and the Seller shall make any termination payment to the Transaction Replacement Seller (or receive any termination payment from the Transaction Replacement Seller) in order to effect such transfer and assignment (and the parties hereunder shall pay any Transaction Designated Unpaid Amounts due hereunder).

The Buyer and the Seller may modify the procedures described above in Part 7(e) and (f) from time to time, upon written notice to the Trustee, without the consent of Noteholders or holders of the Preferred Securities.

- (g) The obligations of the Seller hereunder shall be payable solely from the Collateral (as defined in the Indenture) and Class A-1 Fundings under the Class A-1 Swap (as each defined in the Indenture). Upon application of all such Collateral and the proceeds of all such Class A-1 Fundings in accordance with the Indenture, the obligations of the Issuer hereunder shall be discharged in full and shall not thereafter be revived.

**8. 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.

**9. 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:**

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  
Facsimile No.: Fax: 212-449-3247  
Telephone No.: 212-449-9001

and

Debt Counsel  
Merrill Lynch & Co.  
4 World Financial Center  
New York, New York 10080  
Attention: Swaps Legal  
Facsimile No.: (212) 449 6993

**Counterparty Payment Details:**

JPMorgan Chase Bank  
Houston, Texas  
A/C: 021000021  
A/C: 00102619468  
BNF Name: Asset Backed – Structured #2  
BNF Address: JPMorgan Chase Tower, Houston, TX  
FC: OCTANS CDO I  
A/C# 10227452.2  
OBI: Cassy Walton/description

**Counterparty Notice Details:**

OCTANS CDO I Ltd.  
c/o JPMorgan Chase Bank National Association  
Attn: Cassy Walton  
AC: 10227452  
600 Travis Street, 50th Floor  
Houston, Texas 77002

With copy to:

Octans I CDO Ltd.  
c/o Walkers SPV Limited  
P.O. Box 908GT  
Walker House  
Mary Street  
George Town, Grand Cayman  
Cayman Islands  
Attention: The Directors  
Facsimile No.: (345) 945-4757

With copy to:

Harding Advisory LLC  
2 World Financial Center  
New York, New York 10080  
Attention: Wing Chau  
Facsimile No.: 212-220-9747  
Telephone No.: 212-220-9733

With a copy to the Total Return Swap Counterparty and the Class A-1 Swap Counterparty as follows:

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



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.

#### 10. Additional Definitions and Amendments to the Credit Derivatives Definitions

- (a) 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.
- (b)
  - (i) 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 (iv) 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."
  - (ii) 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 the first Quarterly 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.
  - (iii) The definition of "Physical Settlement Date" in Section 8.4 of the Credit Derivatives Definitions shall be amended by deleting the last sentence thereof.
  - (iv) The definition of "Dealer" in Section 7.15 shall include the following: (i) the lead manager (howsoever described in the terms of the relevant Reference Obligation or Reference Security) of the relevant Reference Obligation or Reference Security, as applicable, (ii) any Affiliate of the Collateral Manager that is a registered broker-dealer; provided that such Affiliate satisfies MLI's legal, credit and trading criteria in accordance with the credit, legal and trading policies of MLI in effect at the time of delivery of the quotation, (iii) MLI or any Affiliate of MLI, and (iv) any issuer of a collateralized debt obligation managed by MLI or an Affiliate of MLI or where MLI or an Affiliate of MLI was the underwriter, initial purchaser or placement agent and which collateralized debt obligation issuer is capable of, based upon its underlying instruments and any guidelines set forth in such underlying instruments, entering into the applicable type of agreement for which the issuer being asked to provide a quote, provided that, in any circumstance in which bids must be obtained from Eligible Dealers, bids obtained from MLI or any

Affiliate of MLI shall not be counted for purposes of determining whether the requisite number of bids have been obtained.

(c) *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, an amount paid 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 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 most recent 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:
  - (1) the Implied Writedown Percentage; and
  - (2) the greater of:
    - (A) zero; and
    - (B) the lesser of (x) the Pari Passu Amount and (y) the Pari Passu Amount plus the Senior Amount minus the aggregate outstanding asset pool balance (including any portion thereof comprised of principal proceeds) 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 then in such pool, whether or not any such asset is performing.

**"Delayed Payment"** means, with respect to a Delivery Date, a Principal Payment, Principal Shortfall Reimbursement or a Writedown Reimbursement within paragraph (i) of the definition of "Writedown Reimbursement" that is described in a Servicer Report delivered to holders of the Reference Obligation or to the Calculation Agent on or after such Delivery Date.

**"Delayed Payment Amount"** means, if persons who are holders of the Reference Obligation as of a date prior to a Delivery Date are paid a Delayed Payment on or after such Delivery Date, an amount equal to the product of (i) the sum of all such Delayed Payments, (ii) the Reference Price, (iii) the Applicable Percentage immediately prior to such Delivery Date and (iv) the Exercise Percentage.

**"Distressed Ratings Downgrade"** means that the Reference Obligation:

(i) if publicly rated by Moody's, (A) is downgraded to "Caa2" or below by Moody's or (B) has the rating assigned to it by Moody's withdrawn and, in either case, not reinstated within five (5) Business Days of such downgrade or withdrawal; provided that if such Reference Obligation was assigned a public rating of "Baa3" or higher by Moody's immediately prior to the occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "Caa1" by Moody's within three (3) calendar months of such withdrawal; or

(ii) if publicly rated by Standard & Poor's, (A) is downgraded to "CCC" or below by Standard & Poor's or (B) has the rating assigned to it by Standard & Poor's withdrawn and, in either case, not reinstated within five (5) Business Days of such downgrade or withdrawal; provided that if such Reference Obligation was assigned a public rating of "BBB-" or higher by Standard & Poor's immediately prior to the occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "CCC+" by Standard & Poor's within three (3) calendar months of such withdrawal; or

(iii) if publicly rated by Fitch, (A) is downgraded to "CCC" or below by Fitch or (B) has the rating assigned to it by Fitch withdrawn and, in either case, not reinstated within five (5) Business Days of such downgrade or withdrawal; provided that if such Reference Obligation was assigned a public rating of "BBB-" or higher by Fitch immediately prior to the occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "CCC+" by Fitch within three (3) calendar months of such withdrawal.

**"Effective Maturity Date"** means the earlier of (a) the Scheduled Termination Date and (b) the Final Amortization Date.

**"Eligible Dealer"** means a counterparty which meets the following criteria: (1) it has an executed ISDA Master Agreement with MLI or agrees to execute promptly an ISDA Master Agreement with MLI with terms acceptable to MLI, (2) it agrees to assume all of the Counterparty's obligations under each Transaction (as modified to conform to the Standard Terms, if applicable to a credit default swap transaction, or if such Eligible Dealer is bidding on the Replacement TRS, it agrees to the terms of such Replacement TRS), (3) it is a Dealer, and (4) it satisfies MLI's legal and credit criteria in accordance with the credit and legal policies of MLI in effect at the time.

**"Exercise Amount"** means, for the purposes of each Transaction, an amount to which a Notice of Physical Settlement relates equal to the product of (i) the original face amount of the Reference Obligation to be Delivered by Buyer to Seller on the applicable Physical Settlement Date and (ii) the Current Factor as of such date. 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 original face amount of all Deliverable Obligations specified in all previously delivered Notices of Physical Settlement.

**"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 (excluding capitalized interest) 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 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 its rating business.

**"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 Increase Amount"** means, with respect to any Reference Obligation Payment Date, an amount equal to the product of (i) the Implied Writedown Notional Adjustment Amount as of the immediately preceding Reference Obligation Payment Date, (ii) the sum of (A) the Relevant Rate and (B) the Fixed Rate and (iii) the actual number of days in the Reference Obligation Calculation Period related to such Reference Obligation Payment Date divided by 360.

**"Implied Writedown Notional Adjustment Amount"** means, with respect to a Reference Obligation Calculation Period, the product of (i) the Current Period Implied Writedown Amount for such Reference Obligation Calculation Period and (ii) the Applicable Percentage.

**"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, provided that the aggregate of all Implied Writedown Reimbursement Amounts at any time shall not exceed the product of the Pari Passu Amount and the Implied Writedown Percentage.

**"Indenture"** means the indenture, dated as of September 26, 2006, among the Seller, the Trustee and the Co-Issuer named therein.

**"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.

**"Minimum Swap Counterparty Rating"** means (i) the rating assigned by S&P to the short-term unsecured debt of the Buyer or the Credit Support Provider for the Buyer is A-1+, and (ii) either (A) the rating assigned by Moody's to the short-term unsecured debt of the Buyer or the Credit Support Provider for the Buyer is P-1 or (B) the rating assigned by Moody's to the long-term unsecured debt of the Buyer or the Credit Support Provider for the Buyer is at least A1.

**"Moody's"** means Moody's Investors Service, Inc. or any successor to its rating business.

**"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.

**"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.

**"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.

**"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.

**"Rating Agencies"** means Moody's, Standard & Poor's and, where applicable, Fitch.

**"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.

**"Reference Portfolio"** means all Transactions made under this Master Confirmation.

**"Regular End Date"** means, with respect to any Transaction, the earliest of (a) the Termination Date (including an Optional Step-up Early Termination Date), (b) 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), and (c) the date on which the Buyer or the Buyer's Credit Support Provider satisfies the Minimum Swap Counterparty Rating or takes such other action as satisfies the Rating Condition.

**"Relevant Amount"** means, if a Servicer Report that describes a Principal Payment, Writedown or Writedown Reimbursement (other than a Writedown Reimbursement within paragraph (i) of "Writedown Reimbursement"), in each case that has the effect of decreasing or increasing the interest-accruing principal balance of the Reference Obligation as of a date prior to a Delivery Date but such Servicer Report is delivered to holders of the Reference Obligation or to the Calculation Agent on or after such Delivery Date, an amount equal to the product of (i) the sum of any such Principal Payment (expressed as a positive amount), Writedown (expressed as a positive amount) or Writedown Reimbursement (expressed as a negative amount), as applicable; (ii) the Reference Price; (iii) the Applicable Percentage immediately prior to such Delivery Date; and (iv) the Exercise Percentage.

**"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 its rating business.

**"Standard Terms"** means the Confirmation titled "Credit Derivative Transaction on Mortgage-Backed Security with Pay As You Go or Physical Settlement (Form I) (Dealer Form)" published by ISDA in January 2006, or April 2006, as applicable, each 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 termination payment (calculated pursuant to Part 7 hereof using Loss as defined in the Master Agreement) in respect of each Transaction 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 in Part 7 hereof; provided that in the case of an Auction Call Redemption, Optional Redemption or Tax Redemption, such date shall be the date specified by the Trustee, which shall be no later than the sixth 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 date under the Indenture on which the Trustee determines whether to liquidate the Collateral following an Event of Default.

**"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.

**"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 (however 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.

**"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.

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.

OCTANS I CDO LTD.

By: \_\_\_\_\_  
Name:  
Title:

## 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: If the Interest Shortfall Cap Basis is Fixed Cap, 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) only if the Reference Obligation is a Floating Rate Security, 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) (and if the Reference Obligation is a Fixed Rate Security, this part (B) shall not apply and shall be equal to 1.0 for purposes hereof);minus
  - (ii) the Cumulative Interest Shortfall Amount as of such Reference Obligation Payment Date;plus

- (iii) the Implied Writedown Increase 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.

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) where if the Reference Obligation is a Floating Rate Security, 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 (and if the Reference Obligation is a Fixed Rate Security, this part (iii) shall not apply and shall be equal to zero for purposes hereof); minus
  - (iv) the Interest Shortfall Reimbursement Amount (if any) in respect of such Additional Fixed Amount Payment Date.

For each Reference Obligation Payment Date, if an Implied Writedown Notional Adjustment Amount exists as of the immediately preceding Reference Obligation Payment Date, the Cumulative Interest Shortfall Amount for such Reference Obligation Payment Date shall, prior to the determination thereof, be increased by the Implied Writedown Increase Amount for such Reference Obligation 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:

The Cumulative Interest Shortfall Payment Amount with respect to any Fixed Rate Payer Payment Date and any Additional Fixed Amount Payment Date falling on such 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) where the Reference Obligation is a Floating Rate Security, the relevant Cumulative Interest Shortfall Payment Compounding Factor (and if the Reference Obligation is a Fixed Rate Security, this part (2) shall not apply and shall be equal to 1.0 for purposes hereof);
  - 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

(C) (y) any Interest Shortfall Reimbursement Payment Amount paid on such Additional Fixed Amount Payment Date.

For each Reference Obligation Payment Date, if an Implied Writedown Notional Adjustment Amount exists as of the immediately preceding Reference Obligation Payment Date, the Cumulative Interest Shortfall Payment Amount for such Reference Obligation Payment Date shall, prior to the determination thereof, be increased by the Implied Writedown Increase Amount for such Reference Obligation 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.

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.

- (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



### Form of Letter of Execution<sup>1</sup>

Merrill Lynch International ("**MLI**") and Octans I 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 26, 2006 and the Master Confirmation dated as of September 26, 2006 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
Trade Date:	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 <sup>2</sup> : See attached spreadsheet Initial Factor: See attached spreadsheet Original Principal Amount: See attached spreadsheet Reference Policy: See attached spreadsheet
U.S. CMBS security:	See attached spreadsheet.
Fixed Rate Reference Obligation:	See attached spreadsheet
Floating Rate Reference Obligation:	See attached spreadsheet
WAC Cap Interest Provision:	See attached spreadsheet
Initial Face Amount:	See attached spreadsheet
Fixed Rate (per annum):	See attached spreadsheet
Specified Type:	See attached spreadsheet
S&P Rating:	See attached spreadsheet

MERRILL LYNCH INTERNATIONAL

By: \_\_\_\_\_  
Name:  
Title:

OCTANS I CDO LTD.

By: \_\_\_\_\_  
Name:  
Title:

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<sup>1</sup> There can be one for each trade or a schedule for a group of trades.

<sup>2</sup> Including any stated cap.

**Exhibit C**

**Initial Form of CDO Form Approved Confirmation for Long Credit Default Swaps  
as of September 20, 2006 (subject to modification)**

MERRILL LYNCH INTERNATIONAL  
MERRILL LYNCH FINANCIAL CENTRE  
2 KING EDWARD STREET  
LONDON EC1A 1HQ  
(REGISTERED NO. 2312079)



September 26, 2006

Octans I CDO Ltd.  
c/o Walkers SPV Limited  
P.O. Box 908GT  
Walkers House  
Mary Street  
George Town, Grand Cayman  
Cayman Islands

**Re: Structured Products Credit Default Swap<sup>9</sup>**

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 Octans I 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 (each, a "**Credit Default Swap**") 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

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<sup>9</sup> This form is designed for use primarily with a Reference Obligation that is a collateralized debt obligation ("CDO").

in the Confirmation shall prevail with respect to the Transaction to which such Confirmation relates. Further, in the event of any inconsistency between the provisions of the Credit Derivatives Definitions and the Indenture, the Credit Derivatives Definitions shall prevail.

This Master Confirmation supplements, forms a part of, and is subject to, the ISDA Master Agreement, dated as of September 26, 2006, 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.

The terms of each Transaction to which this Master Confirmation relates are as follows:

**1. General Terms:**

Trade Date: For each Transaction, the Trade Date as set forth in the Letter of Execution.

Effective Date: For each Transaction, the Effective Date as set forth in the Letter of Execution.

Scheduled Termination Date: For each Transaction, the Legal Final Maturity Date of the Reference Obligation.

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;
- (d) the last Additional Fixed Amount Payment Date;

*provided* that the occurrence of the Termination Date shall be without prejudice to the respective payment obligations of the parties under "Retention of Writedown Amounts" and "Retention of Interest Shortfall Payments" below which shall continue and remain in effect to the extent set forth therein notwithstanding the occurrence of a Termination Date.

Floating Rate Payer: Seller.

Fixed Rate Payer:	Buyer.
Calculation Agent:	Buyer, except if an Event or Default or Termination Event has occurred and is continuing and Buyer is the Defaulting Party or sole Affected Party, as applicable, 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) the 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; <i>provided</i> that (i) the Trustee on behalf of the 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 hereunder) and (ii) if the Trustee changes the location of the Corporate Trust Office, the Trustee on behalf of the 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. Notwithstanding Section 2.2 of the Credit Derivatives Definitions to the contrary, no Successor to any Reference Entity shall become the "Reference Entity" under this Master Confirmation unless such successor succeeds to all of the rights and obligations of such Reference Entity under the related Reference Obligation.
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 balance of Deliverable Obligations Delivered to Seller (as adjusted by the Relevant Amount, if any) 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

Reference Obligation Notional Amount:

applicable Letter of Execution.

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 the day, if any, 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;
- (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"; and
- (v) decreased on each Delivery Date by an amount equal to the relevant Exercise Amount minus the amount determined pursuant to paragraph (b) of "Physical Settlement Amount" below, provided that if there is any Relevant Amount, the Exercise Amount will also be deemed to be decreased by such Relevant Amount (or increased by the absolute value of such Relevant Amount if such Relevant Amount is negative) with effect from such Delivery Date;

*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, the Reference Obligation Notional Amount shall not be increased by any deferral or capitalization of interest during the Term of this Transaction or decreased by payment of any portion of the principal balance of the Reference Obligation that is attributable to deferral or capitalization of interest during the Term of this Transaction.

Initial Payment: Not applicable.

**2. 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 the earlier of (x) the fifth Business Day following the Effective Maturity Date and (y) the Stated Maturity of the Notes.

Fixed Amount: With respect to any Fixed Rate Payer Payment Date, the product of:

- (a) the Fixed Rate;
- (b) (1) if the Reference Obligation is a Floating Rate Reference Obligation, 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



(2) if the Reference Obligation is a Fixed Rate Reference Obligation, the Reference Obligation Notional Amount outstanding on the last day of the Reference Obligation Calculation Period related to such Fixed Rate Payer Payment Date, as adjusted for any increases or decreases of the Reference Obligation Notional Amount on the Reference Obligation Payment Date immediately preceding the related Reference Obligation Payment Date; and

(c) the actual number of days in the related Fixed Rate Payer Calculation Period divided by 360.

Floating Rate Reference  
Obligation/Fixed Rate Reference  
Obligation:

For each Transaction, whether a Reference Obligation is a Floating Rate Reference Obligation or a Fixed Rate Reference Obligation shall be specified in the Letter of Execution.

Additional Fixed Amount Payment  
Dates:

In relation to an Additional Fixed Payment Event,

(i) with respect to an Interest Shortfall Payment Reimbursement Amount,

(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; and

(ii) with respect to a Writedown Reimbursement Payment Amount or Principal Shortfall Reimbursement Payment Amount, the first Quarterly Distribution Date falling at least two Business Days after Buyer has received notification from Seller or the Calculation Agent of the occurrence of such Additional Fixed Payment Event that is a Writedown Reimbursement or a Principal Shortfall Reimbursement.

Additional Fixed Payments:

Following the occurrence of an Additional Fixed Payment Event in respect of the Reference Obligation,

(i) with respect to an Interest Shortfall Payment Reimbursement Amount, 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) and (ii) with respect to a Writedown Reimbursement Payment Amount or a Principal Shortfall Reimbursement Amount, Buyer shall pay the relevant Additional Fixed Amount to Seller on the Additional Fixed Payment Date, in each case 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 one calendar year after the Effective Maturity Date.

Additional Fixed Payment Event:

The occurrence, on or after the Effective Date and on or before the earlier of (x) the day that is one year after the Effective Maturity Date and (y) the Stated Maturity of the Notes, 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).

For the avoidance of doubt, each Writedown Reimbursement Payment Amount, Principal Shortfall Reimbursement Payment Amount or Interest Shortfall Reimbursement Payment Amount (as applicable) shall be calculated using the Applicable Percentage which takes into account the aggregate adjustment made to the Applicable Percentage in respect of all Delivery Dates that have occurred prior to the date of such calculation.

**3. Floating Payments:**

Floating Rate Payer: Seller

Floating Rate Payer Payment Dates: In relation to a Floating Amount Event, (i) with respect to an Interest Shortfall Payment Amount, the first Fixed Rate Payer Payment Date falling at least two Business Days after delivery of a notice by the Calculation Agent to the parties or a notice by Buyer to Seller that the related Interest Shortfall Payment Amount is due, and (ii) with respect to a Writedown Amount or Principal Shortfall Amount, the first Quarterly Distribution Date falling at least two Business Days after delivery of a notice by the Calculation Agent to the parties or a notice by Buyer to Seller that the related Writedown Amount or Principal Shortfall Amount is due, in each case which notice shall satisfy the requirements of a Notice of Publicly Available Information, and show in reasonable detail how such relevant Floating Amount was calculated; *provided* that (x) in the case of a Floating Amount Event that occurs on the Effective Maturity Date, such notice must be given on or prior to the fifth Business Day following the Effective Maturity Date and (y) if a Floating Rate Payer Payment Date in respect of which notice is given that a Floating Amount is due as provided above would otherwise occur after the Stated Maturity of the Notes, such Floating Rate Payer Payment Date shall occur on the Stated Maturity of the Notes.

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.

Implied Writedown: For each Transaction, "Applicable" or "Not Applicable," as set forth with respect to such Transaction in the Letter of Execution.

Floating Amount Event: A Writedown, a Failure to Pay Principal or an Interest Shortfall.

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).

For the avoidance of doubt, each Writedown Amount, Principal Shortfall Amount or Interest Shortfall Payment Amount (as applicable) shall be calculated using the Applicable Percentage which takes into account the aggregate adjustment made to the Applicable Percentage in respect of all Delivery Dates that have occurred prior to the date of such calculation.

**Retention of Writedown Amounts:**

In the event that at any time the short-term unsecured debt rating of Buyer and the Credit Support Provider for the Buyer is less than the Minimum Swap Counterparty Rating, all Writedown 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 relating to each Transaction for which an Event Determination Date has occurred, and (ii) any Writedown Amount for which an Additional Fixed Payment has been paid but only by the extent that such Writedown Amount has been reimbursed) shall be deposited by the Trustee into the subaccount of the Synthetic Security Issuer Account for the deposit of "Writedown Amounts" (the "**Writedown Subaccount**").

Amounts in the Writedown Subaccount with respect to a Transaction and a specific Writedown Amount shall be retained by the Trustee until the earlier of (i) (A) in the case that the average aggregate amount of all Writedown Amounts in respect of such Transaction during any 12 month period preceding the date of determination is less than 25% of the Reference Obligation Notional Amount, three years from the date on which the applicable Writedown occurred and (B) in any other case, one year from the date on which the applicable Writedown occurred (in each case as certified by the Calculation Agent to the parties) or (ii) the date on which the unpaid outstanding principal amount of each Class of Notes has been paid in full (such date, the "**Writedown Extended End Date**" and the amount of any Writedown Amounts retained in the Writedown Subaccount that are Implied Writedown Amounts, the "**Aggregate Retained Implied Writedown Amount**"). Notwithstanding the

occurrence of an Early Termination Date, the obligations of the Buyer, the Seller and the Trustee described in this section "Retention of Writedown Amounts" shall continue and remain in effect until the Writedown Extended End Date has occurred in respect of all Transactions with respect to which a Writedown has occurred and, for purposes of this section "Retention of Writedown Amounts", calculations of the Writedown Amount shall be made using the Reference Obligation Notional Amount as of the Early Termination Date, adjusted to reflect such reductions or increases therein as would have occurred pursuant hereto if such Early Termination Date had not occurred.

Any amounts in the Synthetic Security Issuer Account shall be invested by the Trustee at the direction of the Buyer in accordance with the terms of the Indenture and the MLI Synthetic Security Issuer Account Control Agreement, dated as of September 26, 2006, among Buyer, Seller and the custodian specified therein.

Amounts in the 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 (which become due, for the avoidance of doubt with respect to each Transaction, on or prior to, the Writedown Extended End Date (if any), (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, (iii) to pay to the Buyer any remaining amount in the Writedown Subaccount with respect to the applicable Writedown Amount on the applicable Writedown Extended End Date (if any) or, if earlier, the date on which an Event Determination Date occurs (other than related to a Writedown) with respect to such Transaction or (iv) to pay to the Buyer any remaining amount in the Writedown Subaccount on the Regular End Date. As of any date of determination in respect of any Transaction, the remainder of (x) the aggregate amount of Writedown Amounts credited to the Writedown Subaccount in respect of such Transaction since the Effective Date minus (y) the aggregate amount of all disbursements made by the Trustee in respect of such Transaction in accordance with the preceding sentence is referred to herein as the "Retained Writedown Amount".

Retention of Interest Shortfall  
Payments:

In the event that at any time the short-term unsecured debt rating of Buyer and the Credit Support Provider for the Buyer is less than the Minimum Swap Counterparty Rating, all 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 Interest Shortfall Payment Amount relating to each Transaction for which an Event Determination Date has occurred, and (ii) any Interest Shortfall Payment Amount for which an Additional Fixed Payment has been paid but only by the extent that such Interest Shortfall Payment Amount has been reimbursed) shall be deposited by the Trustee into the subaccount of the Synthetic Security Issuer Account for the deposit of "Interest Shortfall Payment Amounts" (the "**Interest Shortfall Subaccount**").

Amounts in the Interest Shortfall Subaccount with respect to a Transaction and a specific Interest Shortfall shall be retained by the Trustee until the earlier of (i) (A) in the case that the average aggregate amount of all Interest Shortfall Amounts in respect of such Transaction during any 12 month period preceding the date of determination is less than 25% of the Reference Obligation Notional Amount, three years from the date on which the applicable Interest Shortfall occurred and (B) in any other case, one year from the date on which the applicable Interest Shortfall occurred (in each case as certified by the Calculation Agent to the parties) or (ii) the date on which the unpaid outstanding principal amount of each Class of Notes has been paid in full (such date, the "**Interest Shortfall Extended End Date**"). Notwithstanding the occurrence of an Early Termination Date, the obligations of the Buyer, the Seller and the Trustee described in this section "Retention of Interest Shortfall Amounts" shall continue and remain in effect until the Interest Shortfall Extended End Date has occurred in respect of all Transactions with respect to which an Interest Shortfall has occurred.

Any amounts in the Synthetic Security Issuer Account shall be invested by the Trustee at the direction of the Buyer in accordance with the terms of the Indenture and the MLI Synthetic Security Issuer Account Control Agreement, dated as of September 26, 2006, among Buyer, Seller and the custodian specified therein.

Amounts in the 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 (which become due, for the avoidance of doubt with respect to each Transaction, on or prior to, the Interest Shortfall Extended End Date (if any)), (ii) to pay to the Buyer any remaining amount in the Interest Shortfall Subaccount on the applicable Interest Shortfall Extended End Date (if any) or, if earlier, the date on which an Event Determination Date occurs with respect to such Transaction, or (iii) to pay to the Buyer any remaining amount in the Interest Shortfall Subaccount on the Regular End Date.

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 Servicer Reports in respect of the Reference Obligation and, in respect of a Distressed Ratings Downgrade Credit Event only, any public communications by any of the Rating Agencies in respect of the Reference Obligation shall also be deemed Public Sources.

Specified Number: One

provided that if the Calculation Agent has previously delivered a notice to the parties or Buyer has previously delivered a notice 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 Conditions to Settlement with respect to any Credit Event shall be a Notice of Physical Settlement and, in relation to the Failure to Pay Interest Credit Event, the Additional Condition to Settlement specified below.

Additional Condition to Settlement for Failure to Pay Interest:

In addition to the Conditions to Settlement above, in respect of the Failure to Pay Interest Credit Event, if the Reference Obligation is PIK-able, it shall be a

Condition to Settlement that a period of at least 360 calendar days has elapsed since the occurrence of the Credit Event without the relevant Interest Shortfall having been reimbursed in full. For the avoidance of doubt, if it is not explicitly made clear in the Servicer Report whether or not, or to what extent, a particular Interest Shortfall has been reimbursed but the Calculation Agent determines that such Interest Shortfall has been reimbursed by a certain amount on the basis of information in such Servicer Report, then the relevant Interest Shortfall reimbursement shall be calculated by the Calculation Agent on the basis of such information.

Additional agreements relating to Physical Settlement:

The parties agree that with respect to each Transaction and notwithstanding anything to the contrary in the Credit Derivatives Definitions:

- (a) the Conditions to Settlement may be satisfied on more than one occasion;
- (b) multiple Physical Settlement Amounts may be payable by Seller;
- (c) Buyer, when providing a Notice of Physical Settlement, must specify an Exercise Amount and the Exercise Percentage;
- (d) if Buyer 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 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
- (e) any Notice of Physical Settlement shall be delivered no later than 30 calendar days after the fifth Business Day following the Effective Maturity Date; and
- (f) if any Physical Settlement Date would otherwise occur after the Stated Maturity of the



Notes, such Physical Settlement Date shall occur on the Stated Maturity of the Notes.

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".

Section 3.3 of the Credit Derivatives Definitions is amended so that the following is added as sub-clause (d):

"(d) the expiration of any applicable grace period for a Failure to Pay Principal Credit Event".

Credit Events:

The following Credit Events shall apply to each Transaction (and the first sentence of Section 4.1 of the Credit Derivatives Definitions 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

Failure to Pay Interest

Payment Requirement: USD 10,000

The definition of "Payment Requirement" in Section 4.8(d) of the Credit Derivatives Definitions shall be amended so that the words "Failure to Pay" are deleted and replaced by the words "Failure to Pay Interest".

Obligation:

Reference Obligation Only

#### 4. Interest Shortfall

Interest Shortfall Payment Amount:	In respect of an Interest Shortfall, the relevant Interest Shortfall Amount; <i>provided</i> 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 relating to the Term of this Transaction, but excluding payments in respect of prepayment penalties, yield maintenance provisions 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:	<p>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:</p> <ul style="list-style-type: none"><li>(a) the Outstanding Principal Amount taking into account any reductions due to a principal deficiency balance or realized loss amount (however described in the Underlying Instruments) that are attributable to the Reference Obligation minus</li><li>(b) the Aggregate Implied Writedown Amount (if any)</li></ul> <p>and 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</p>

regard to (i) unpaid amounts in respect of accrued interest on prior Reference Obligation Payment Dates; (ii) any prepayment penalties or yield maintenance provisions; or (iii) the effect of any provisions (however described) of such Underlying Instruments that otherwise permit the limitation of due payments to distributions of funds available from proceeds of the Underlying Assets, or 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 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 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.

Interest Shortfall Reimbursement Payment Amount: The amount determined pursuant to the Interest Shortfall Cap Annex; provided, that the aggregate of all Interest Shortfall Reimbursement Payment Amounts (determined for this purpose on the basis that Interest Shortfall Compounding is not applicable) at any time shall not exceed the aggregate of Interest Shortfall Payment Amounts paid by Seller in respect of Interest Shortfalls occurring prior to such Additional Fixed Amount Payment Date.

## 5. Settlement Terms

Settlement Method: Physical Settlement

### Terms Relating to 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 relevant 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.

For the avoidance of doubt, for the purposes of calculating the Physical Settlement Amount, the Exercise Amount shall be deemed to be adjusted pursuant to the final paragraph of the definition of "Exercise Amount", but shall not be subject to any adjustment or recalculation following the relevant Delivery Date.

Delayed Payment: With respect to a Delivery Date, if a Servicer Report that describes a Delayed Payment is delivered to holders of the Reference Obligation or to the Calculation Agent on or after such Delivery Date, Buyer will pay the applicable Delayed Payment Amount to Seller no later than five Business Days following the receipt of such Servicer Report.

Escrow: Applicable

Non-delivery by Buyer or occurrence of the Effective Maturity Date: If Buyer has delivered a Notice of Physical Settlement and:

- (a) Buyer does not Deliver in full the Deliverable Obligations specified in that Notice of Physical Settlement on or prior to the Physical Settlement Date; or
- (b) the Effective Maturity Date occurs after delivery of the Notice of Physical Settlement but before Buyer Delivers the Deliverable Obligations specified in that Notice of Physical Settlement;

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.

## **6. Additional Provisions:**

### **(a) Delivery of Servicer Report.**

The Calculation Agent agrees to provide Seller with a copy of the most recent Servicer Report, 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 Servicer Reports. 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).

(b) 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 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 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. For the avoidance of doubt, if an Interest Shortfall Amount is not explicitly set out in the Servicer Report but the Calculation Agent determines that an Interest Shortfall has occurred on the basis of information in such Servicer Report, then the relevant Interest Shortfall Amount shall be calculated by the Calculation Agent on the basis of such information. 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.

(c) 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 by either party. For the avoidance of doubt, no amounts shall be payable by either party pursuant to Section 2(e) of the Agreement. No interest shall accrue on any adjusted amount. 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 Quarterly Distribution Date following such notification (each, a "**Relevant Determination Adjustment Payment Date**").

In the event that the Calculation Agent has not yet received and is not otherwise able (using its reasonable efforts) to obtain 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 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 extent that such corrections or adjustments have an impact on calculations pursuant to the relevant Transaction 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. No interest shall accrue on any adjusted amount. The Calculation Agent shall 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 Seller in respect of corrections and adjustments shall be payable only from funds available for such purpose in the Synthetic Security Counterparty Account and, to the extent that such funds are insufficient to make such payment, the deficiency shall be deferred and shall be paid on the first day when such funds are available in the Synthetic Security Counterparty 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.

(d) 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.

(e) Early Termination Date.

Notwithstanding Section 6(e) of the Agreement to the contrary, prior to each proposed Redemption Date for an Auction Call Redemption, Optional Redemption or a Tax Redemption or prior to a liquidation of Collateral following an Event of Default under the Indenture, all amounts that would be payable with respect to the Transactions under this Master Confirmation on any Early Termination Date under Section 6(e) of the Agreement shall be determined as follows:

(i) The Seller (or the Collateral Manager on its behalf) or the Trustee shall, on or prior to 5:00 p.m., New York time, on the tenth Business Day prior to the proposed Swaps Liquidation Date provide a written notice to the Calculation Agent (the "**Swap Termination Payment Notice**"), with a copy to the Buyer, requesting that the Calculation Agent 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 Calculation Agent'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 Calculation Agent shall, on or prior to 5:00 p.m., New York time, on the eighth Business Day prior to such Swaps Liquidation Date, provide written notice specifying the Swap Termination Payment and the Designated Unpaid Amounts payable on the Swaps Liquidation Date by the Seller to the Buyer or by the Buyer to the Seller (a "**Swap Termination Notice**");

(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 seventh 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. The Trustee shall accept a Swap Termination Payment Notice only if the Collateral Manager notifies the Seller in writing that the Collateral Manager has made a determination (the "**Acceptance Standard**") that (i) in the case of an Auction Call Redemption, an Optional Redemption or a Tax Redemption, the requirements of Section 9.1 of the Indenture (in the case of an Optional Redemption or Tax Redemption) or Section 9.7 of the Indenture (in the case of an Auction Call Redemption) would be satisfied or in the case of a liquidation of the Collateral following an Event of Default, the requirements of Section 5.5(a) of the Indenture 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 Seller (or the Collateral Manager on its behalf) shall attempt to obtain firm bids on the sixth Business Day prior to the Swaps Liquidation Date (on or prior to 5:00 p.m., New York time) with respect to the Reference Portfolio in whole or with respect to sub-pools of the 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. The Buyer shall deliver as soon as commercially practicable thereafter a statement of the Designated Unpaid Amounts and the Seller (or the Collateral Manager on its behalf) shall deliver as soon as commercially practicable thereafter each of the firm bids obtained from the Eligible Dealers to the Buyer (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) (the "**Replacement Bid**"), would result in an amount which, together with other available funds (after taking into account any payment by the Seller to such Eligible Dealers and the Designated Unpaid Amounts), would satisfy the Acceptance Standard, the Seller shall deliver a notice of acceptance (the "**Termination Acceptance Notice**") to the Buyer by 3:00 p.m. New York time on the fourth Business Day prior to the Swaps Liquidation Date. The Buyer may, on or prior to 5:00 p.m. New York time on the fourth Business Day prior to the Swaps Liquidation Date, either elect (i) to replace the Seller with such Eligible Dealers under this Master Confirmation based upon the Replacement Bid or (ii) to pay to the Seller (or have the Seller pay to the Buyer) a termination amount equal to the Replacement Bid. In the event that the Buyer elects to replace the Seller with an Eligible Dealer, the Seller (x) shall make commercially reasonable efforts to transfer and assign the Transactions (including, pursuant to an assumption or novation agreement, reasonably acceptable to the Buyer, between the Seller and the Eligible Dealer) on or prior to the sixth Business Day before the Redemption Date and (y) shall make any termination payment to the related Eligible Dealer and (z) 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) If the amount that the Seller would be paid by Eligible Dealers would not result in sufficient funds (after taking into account any payment by the Seller to such Eligible Dealers and the Designated Unpaid Amounts) to satisfy the Acceptance Standard, the valuation procedure described above shall be conducted prior to each subsequent proposed Redemption Date or proposed date for liquidation of the Collateral after an Event of Default on the same schedule set forth above. In no event shall the Transactions be terminated or any Swap Termination Payment be payable by the Seller unless, (i) in the case of an Auction Call Redemption, an Optional Redemption or a Tax Redemption, the notice of redemption has become irrevocable pursuant to Section 9.4 of the Indenture, and (ii) in the case of an Event of Default, the liquidation of the Collateral has commenced pursuant to Section 5.5(a) of the Indenture.

(f) The Seller (or the Collateral Manager on its behalf) may at any time terminate a Transaction pursuant to Section 12.1 of the Indenture pursuant to the following provisions:

(i) The Seller (or the Collateral Manager on its behalf) pursuant to Section 12.1 of the Indenture shall provide a written notice to the Buyer (on or prior to 5:00 p.m. on the sixth Business Day prior to the Transaction Termination Date) requesting that the Buyer specify the termination payment which the Buyer would pay to the Seller or the 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) (the "**Transaction Termination Payment**") if all obligations of the parties with respect to such Transaction were to terminate on the date (the "**Transaction Termination Date**") specified in such notice (which payment shall exclude Unpaid Amounts). The Buyer's calculation of the Transaction 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 such Transaction Termination Date, and (ii) that a Credit Event may occur on or prior to such Transaction Termination Date and (y) specify all amounts (including any Unpaid Amounts) that will be due and payable by Buyer or Seller on or prior to such Transaction Termination Date (such amounts, "**Transaction Designated Unpaid Amounts**");

(ii) The Buyer shall provide written notice specifying the Transaction Termination Payment and the Transaction Designated Unpaid Amounts payable (on the Transaction Termination Date) by the Seller to the Buyer or by the Buyer to the Seller on or prior to 5:00 p.m., New York time, on the fifth Business Day prior to the Transaction Termination Date;

(iii) If on or prior to 5:00 p.m., New York time, on the fourth Business Day prior to the Transaction Termination Date, the Seller (or the Collateral Manager on its behalf) accepts the Buyer's determination of such Transaction Termination Payment in order to terminate such Transaction, on the Transaction Termination Date, the Seller or the Buyer (as applicable) shall pay such Transaction Termination Payment (and the parties shall pay any Transaction Designated Unpaid Amounts due hereunder) and, upon such payments, all obligations of the parties with respect to such Transaction under this Master Confirmation shall terminate on and as of such Transaction Termination Date;

(iv) If the Seller (or the Collateral Manager on its behalf) does not accept (by such deadline) the determination of such Transaction Termination Payment, the Seller (or the Collateral Manager on its behalf) may attempt to obtain firm bids as soon as commercially practicable from Eligible Dealers to replace the Seller under such Transaction (under a confirmation governed by the Standard Terms) and the Seller may deliver a firm bid acceptable to Seller from an Eligible Dealer to the Buyer on or prior to 5:00 p.m., New York time, on the second Business Day prior to the Transaction Termination Date. On the Transaction Termination Date, the Seller shall make commercially reasonable efforts to transfer and assign to the Eligible Dealer with such firm bid (the "**Transaction Replacement Seller**") all rights under such Transaction (under a confirmation governed by the Standard Terms), the Eligible Dealer shall enter into an assumption or a novation agreement acceptable to the Buyer, the Seller shall cause all amounts applicable to such Transaction in the Synthetic Security Issuer Account to be paid to the Buyer, and the Seller shall make any termination payment to the Transaction Replacement Seller (or receive any termination payment from the Transaction Replacement Seller) in order to effect such transfer and assignment (and the parties hereunder shall pay any Transaction Designated Unpaid Amounts due hereunder).

The Buyer and the Seller may modify the procedures described above in Part 6(e) and (f) from time to time, upon written notice to the Trustee, without the consent of Noteholders or holders of the Preferred Securities.

(g) *The obligations of the Seller hereunder shall be payable solely from the Collateral (as defined in the Indenture) and Class A-1 Fundings under the Class A-1 Swap (each as defined in the Indenture). Upon application of all such Collateral and the proceeds of all such Class A-1 Fundings in accordance with the Indenture, the obligations of the Issuer hereunder shall be discharged in full and shall not thereafter be revived.*

## **7. 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.

**8. 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:**

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

and

Debt Counsel  
Merrill Lynch & Co.  
4 World Financial Center  
New York, New York 10080  
Attention: Swaps Legal  
Facsimile No.: (212) 449 6993

**Counterparty Payment Details:**

JPMorgan Chase Bank  
Houston, Texas  
A/C: 021000021  
A/C: 00102619468  
BNF Name: Asset Backed – Structured #2  
BNF Address: JPMorgan Chase Tower, Houston, TX  
FC: OCTANS CDO I  
A/C# 10227452.2  
OBI: Cassy Walton/description

**Counterparty Notice Details:**

OCTANS CDO I Ltd.  
c/o JPMorgan Chase Bank National Association  
Attn: Cassy Walton  
AC: 10227452  
600 Travis Street, 50th Floor  
Houston, Texas 77002

With copy to:

Octans I CDO Ltd.  
c/o Walkers SPV Limited  
P.O. Box 908GT  
Walker House  
Mary Street  
George Town, Grand Cayman  
Cayman Islands  
Attention: the Directors  
Telecopy no.: (345) 945-4757

With copy to:

Harding Advisory LLC  
2 World Financial Center  
New York, New York 10080  
Attention: Wing Chau  
Phone Number: 212-220-9733  
Fax Number: 212-220-9747

With a copy to the Total Return Swap Counterparty and the Class A-1 Swap Counterparty as follows:

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

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.

**9. Additional Definitions and Amendments to the Credit Derivatives Definitions**

- (a) *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.*

- (b) (i) *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 (iv) 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."*
- (ii) 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 the first Quarterly 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.
- (iii) The definition of "Physical Settlement Date" in Section 8.4 of the Credit Derivatives Definitions shall be amended by deleting the last sentence thereof.
- (iv) The definition of "Dealer" in Section 7.15 shall include the following: (i) the lead manager (howsoever described in the terms of the relevant Reference Obligation or Reference Security) of the relevant Reference Obligation or Reference Security, as applicable, (ii) any Affiliate of the Collateral Manager that is a registered broker-dealer; provided that such Affiliate satisfies MLI's legal, credit and trading criteria in accordance with the credit, legal and trading policies of MLI in effect at the time of delivery of the quotation, (iii) MLI or any Affiliate of MLI, and (iv) any issuer of a collateralized debt obligation managed by MLI or an Affiliate of MLI or where MLI or an Affiliate of MLI was the underwriter, initial purchaser or placement agent and which collateralized debt obligation issuer is capable of, based upon its underlying instruments and any guidelines set forth in such underlying instruments, entering into the applicable type of agreement for which the issuer being asked to provide a quote, provided that, in any circumstance in which bids must be obtained from Eligible Dealers, bids obtained from MLI or any Affiliate of MLI shall not be counted for purposes of determining whether the requisite number of bids have been obtained.
- (c) *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, an amount paid 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, provided that if Implied Writedown is not applicable, the Aggregate Implied Writedown Amount shall be deemed to be zero.

**"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 factor is not specified in the most recent Servicer Report or such specified factor includes deferred or capitalized interest relating to the Term of this Transaction, then, the Current Factor shall be the ratio equal to (i) the Outstanding Principal Amount as of such date, determined in accordance with the most recent 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:
  - (1) the Implied Writedown Percentage; and
  - (2) the greater of:
    - (A) zero; and
    - (B) the lesser of (x) the Pari Passu Amount and (y) the product of (I) the Pari Passu Amount plus the Senior Amount and (II) an amount equal to one minus the Overcollateralization Ratio.

**"Delayed Payment"** means, with respect to a Delivery Date, a Principal Payment, Principal Shortfall Reimbursement or a Writedown Reimbursement within paragraph (i) of the definition of "Writedown Reimbursement" that is described in a Servicer Report delivered to holders of the Reference Obligation or to the Calculation Agent on or after such Delivery Date.

**"Delayed Payment Amount"** means, if persons who are holders of the Reference Obligation as of a date prior to a Delivery Date are paid a Delayed Payment on or after such Delivery Date, an amount equal to the product of (i) the sum of all such Delayed Payments, (ii) the Reference Price, (iii) the Applicable Percentage immediately prior to such Delivery Date and (iv) the Exercise Percentage.

**"Distressed Ratings Downgrade"** means that the Reference Obligation:

- (i) if publicly rated by Moody's, (A) is downgraded to "Caa2" or below by Moody's or (B) has the rating assigned to it by Moody's withdrawn and, in either case, not reinstated within five (5) Business Days of such downgrade or withdrawal; provided that if such Reference Obligation was assigned a public rating of "Baa3" or higher by Moody's immediately prior to the

occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "Caa1" by Moody's within three (3) calendar months of such withdrawal; or

(ii) if publicly rated by Standard & Poor's, (A) is downgraded to "CCC" or below by Standard & Poor's or (B) has the rating assigned to it by Standard & Poor's withdrawn and, in either case, not reinstated within five (5) Business Days of such downgrade or withdrawal; provided that if such Reference Obligation was assigned a public rating of "BBB-" or higher by Standard & Poor's immediately prior to the occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "CCC+" by Standard & Poor's within three (3) calendar months of such withdrawal; or

(iii) if publicly rated by Fitch, (A) is downgraded to "CCC" or below by Fitch or (B) has the rating assigned to it by Fitch withdrawn and, in either case, not reinstated within five (5) Business Days of such downgrade or withdrawal; provided that if such Reference Obligation was assigned a public rating of "BBB-" or higher by Fitch immediately prior to the occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "CCC+" by Fitch within three (3) calendar months of such withdrawal.

**"Effective Maturity Date"** means the earlier of (a) the Scheduled Termination Date and (b) the Final Amortization Date.

**"Eligible Dealer"** means a counterparty which meets the following criteria: (1) it has an executed ISDA Master Agreement with MLI or agrees to execute promptly an ISDA Master Agreement with MLI with terms acceptable to MLI, (2) it agrees to assume all of the Counterparty's obligations under each Transaction (as modified to conform to the Standard Terms, if applicable to a credit default swap transaction, or if such Eligible Dealer is bidding on the Replacement TRS, it agrees to the terms of such Replacement TRS), (3) it is a Dealer, and (4) it satisfies MLI's legal and credit criteria in accordance with the credit and legal policies of MLI in effect at the time.

**"Exercise Amount"** means, for the purposes of each Transaction, an amount to which a Notice of Physical Settlement relates equal to the product of (i) the original face amount of the Reference Obligation to be Delivered by Buyer to Seller on the applicable Physical Settlement Date and (ii) the Current Factor as of such date. 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. For the avoidance of doubt: (a) if any capitalization of interest in respect of the Reference Obligation occurred during the Term of this Transaction and has not been recovered by holders of the Reference Obligation pursuant to the terms of the Underlying Instruments, then, for the purposes of determining the



amount of Deliverable Obligations to be Delivered, the Exercise Amount (determined above by reference to the original face amount) will represent an outstanding principal balance of the Reference Obligation to be Delivered by Buyer that includes the proportion of unrecovered interest attributable to the Reference Obligation to be Delivered and (b) notwithstanding the foregoing, the Physical Settlement Amount payable by Seller in relation to such Exercise Amount shall not include any amount in respect of such unrecovered interest.

**"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 original face amount of all Deliverable Obligations specified in all previously delivered Notices of Physical Settlement.

**"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 (excluding capitalized interest) 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 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 Interest"** means the occurrence of an Interest Shortfall Amount or Interest Shortfall Amounts (calculated on a cumulative basis) in excess of the relevant Payment Requirement.

**"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 its rating business.

**"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 Increase Amount"** means, with respect to any Reference Obligation Payment Date, an amount equal to the product of (i) the Implied Writedown Notional Adjustment Amount as of the immediately preceding Reference Obligation Payment Date, (ii) the sum of (A) the Relevant Rate and (B) the Fixed Rate and (iii) the actual number of days in the Reference Obligation Calculation Period related to such Reference Obligation Payment Date divided by 360.

**"Implied Writedown Notional Adjustment Amount"** means, with respect to a Reference Obligation Calculation Period, the product of (i) the Current Period Implied Writedown Amount for such Reference Obligation Calculation Period and (ii) the Applicable Percentage.

**"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, provided that the aggregate of all Implied Writedown Reimbursement Amounts at any time shall not exceed the product of the Pari Passu Amount and the Implied Writedown Percentage.

**"Indenture"** means the indenture, dated as of September 26, 2006, among the Seller, the Trustee and the Co-Issuer named therein.

**"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.

**"Minimum Swap Counterparty Rating"** means (i) the rating assigned by S&P to the short-term unsecured debt of the Buyer or the Credit Support Provider for the Buyer is A-1+, and (ii) either (A) the rating assigned by Moody's to the short-term unsecured debt of the Buyer or the Credit Support Provider for the Buyer is P-1 or (B) the rating assigned by Moody's to the long-term unsecured debt of the Buyer or the Credit Support Provider for the Buyer is at least A1.

**"Moody's"** means Moody's Investors Service, Inc. or any successor to its rating business.

**"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 the avoidance of doubt, the Outstanding Principal Amount shall not include any portion of the outstanding principal balance of the Reference Obligation that is attributable to the deferral or capitalization of interest during the Term of this Transaction.

**"Overcollateralization Ratio"** means, in respect of a Reference Obligation Calculation Period:

if the most recent Servicer Report sets out a ratio representing the ratio of (A) the aggregate asset pool balance securing the payment obligations on the Reference Obligation (subject to certain adjustments as described in the Underlying Instruments) to (B) the Pari Passu Amount plus the Senior Amount, then such ratio; or

if the ratio cannot be determined under (i) but the most recent Servicer Report for one or more senior Related Obligations (if any) sets out such a ratio, then a ratio equal to the ratio of (A) the product of (1) such ratio determined with respect to the senior Related Obligation ranking closest in priority of payment to the Reference Obligation for which such a ratio is set out, and (2) the aggregate outstanding principal balance of such Related Obligation and any other Related Obligations ranking in priority of payment either pari passu with or senior to such Related Obligation to (B) the sum of the Pari Passu Amount plus the Senior Amount with respect to such Reference Obligation; or

if the ratio cannot be determined under (ii) but the most recent Servicer Report for one or more junior Related Obligations (if any) sets out such a ratio, then a ratio equal to the ratio of (A) the product of (1) such ratio determined with respect to the junior Related Obligation

ranking closest in priority of payment to the Reference Obligation for which such a ratio is set out, and (2) the aggregate outstanding principal balance of such Related Obligation and any other Related Obligations ranking in priority of payment either *pari passu* with or senior to such Related Obligation (including the Reference Obligation) and (B) the sum of the *Pari Passu* Amount plus the Senior Amount with respect to such Reference Obligation; or

if the ratio cannot be determined under (iii), then a ratio representing the ratio of (A) the aggregate asset pool balance securing the payment obligations under the Reference Obligation to (B) the *Pari Passu* Amount plus the Senior Amount.

**"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-able"** means, in relation to a Reference Obligation, that the Underlying Instruments include provisions that provide for capitalization or deferral of interest on such Reference Obligation.

**"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.

**"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.

**"Rating Agencies"** means Moody's, Standard & Poor's and, where applicable, Fitch.

**"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 Quarterly 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.

**"Reference Portfolio"** means all Transactions made under this Master Confirmation.

**"Regular End Date"** means, with respect to any Transaction, the earliest of (a) the Termination Date, (b) 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), and (c) the date on which the Buyer or the Buyer's Credit Support Provider satisfies the Minimum Swap Counterparty Rating or takes such other action as satisfies the Rating Condition.

**"Related Obligation"** means, in relation to the Reference Obligation, an obligation of the Reference Entity that is also secured by the Underlying Assets but ranks senior or junior to the Reference Obligation in priority of payment. In relation to a Related Obligation, the terms "Servicer", "Servicer Report" and "Underlying Instruments" shall have the meanings set out in this Confirmation but with references in the definitions of those terms to "Reference Obligation" being deemed, solely for this purpose, to be references to the Related Obligation.

**"Relevant Amount"** means, if a Servicer Report that describes a Principal Payment, Writedown or Writedown Reimbursement (other than a Writedown Reimbursement within paragraph (i) of "Writedown Reimbursement"), in each case that has the effect of decreasing or increasing the interest-accruing principal balance of the Reference Obligation as of a date prior to a Delivery Date but such Servicer Report is delivered to holders of the Reference Obligation or to the Calculation Agent on or after such Delivery Date, an amount equal to the product of (i) the sum of any such Principal Payment (expressed as a positive amount), Writedown (expressed as a positive amount) or Writedown Reimbursement (expressed as a negative amount), as applicable; (ii) the Reference Price; (iii) the Applicable Percentage immediately prior to such Delivery Date; and (iv) the Exercise Percentage.

**"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 in relation to the Reference Obligation pursuant to the Underlying Instruments.

**"Servicer Report"** means a periodic statement or report 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 its rating business.

**"Standard Terms"** means the Confirmation titled "Credit Derivative Transaction on Asset-Backed Security with Pay As You Go or Physical Settlement (Dealer Form)" published by ISDA in June 2006, 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 termination payment (calculated pursuant to Part 6 hereof using Loss as defined in the Master Agreement) in respect of each Transaction 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 in Part 6 hereof; provided that in the case of an Auction Call Redemption, Optional Redemption or Tax Redemption, such date shall be the date specified by the Trustee, which shall be no later than the sixth 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 date under the Indenture on which the Trustee determines whether to liquidate the Collateral following an Event of Default.

**"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.

**"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 (however 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 Implied Writedown is applicable and 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.

**"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 Implied Writedown is applicable and 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.



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.

OCTANS I CDO LTD.

By: \_\_\_\_\_  
Name:  
Title:

## 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:	If the Interest Shortfall Cap Basis is Fixed Cap, 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 Compounding:	For each Transaction, "Applicable" or "Not Applicable," as set forth with respect to such Transaction in the Letter of Execution.
Interest Shortfall Reimbursement Payment Amount:	<p>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:</p> <ul style="list-style-type: none"><li>(a) zero; and</li><li>(b) the amount equal to:<ul style="list-style-type: none"><li>(i) the product of:<ul style="list-style-type: none"><li>(A) the Cumulative Interest Shortfall Payment Amount as of the Additional Fixed Amount Payment Date immediately preceding such Reference Obligation Payment Date; and</li><li>(B) only if the Reference Obligation is a Floating Rate Security, either:<ul style="list-style-type: none"><li>(1) if Interest Shortfall Compounding is applicable, 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</li></ul></li></ul></li></ul></li></ul>

Date); or

- (2) if Interest Shortfall Compounding is not applicable, or if the Reference Obligation is a Fixed Rate Security, 1.0;

minus

- (ii) the Cumulative Interest Shortfall Amount as of such Reference Obligation Payment Date;

plus

- (iii) the Implied Writedown Increase 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.

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) either:
    - (A) if Interest Shortfall Compounding is applicable, where if the Reference Obligation is a Floating Rate Security, 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 or

(B) if Interest Shortfall Compounding is not applicable or if the Reference Obligation is a Fixed Rate Security, zero; minus

(iv) the Interest Shortfall Reimbursement Amount (if any) in respect of such Additional Fixed Amount Payment Date.

For each Reference Obligation Payment Date, if an Implied Writedown Notional Adjustment Amount exists as of the immediately preceding Reference Obligation Payment Date, the Cumulative Interest Shortfall Amount for such Reference Obligation Payment Date shall, prior to the determination thereof, be increased by the Implied Writedown Increase Amount for such Reference Obligation 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:

The Cumulative Interest Shortfall Payment Amount with respect to any Fixed Rate Payer Payment Date and any Additional Fixed Amount Payment Date falling on such 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) either:
        - (AA) if Interest Shortfall Compounding is applicable, where the Reference Obligation is a Floating Rate Security, the relevant Cumulative Interest Shortfall Payment Compounding Factor or;
        - (BB) if Interest Shortfall Compounding is not applicable, or if the Reference Obligation is a Fixed Rate Security, 1.0;
  - 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
- (C) (y) any Interest Shortfall Reimbursement Payment Amount paid on such Additional Fixed Amount Payment Date.

For each Reference Obligation Payment Date, if an Implied Writedown Notional Adjustment Amount exists as of the immediately preceding Reference Obligation Payment Date, the Cumulative Interest Shortfall Payment Amount for such Reference Obligation Payment Date shall, prior to the determination thereof, be increased by the Implied Writedown Increase Amount for such Reference Obligation 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.

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

### Form of Letter of Execution<sup>1</sup>

Merrill Lynch International ("**MLI**") and Octans I 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 26, 2006 and the Master Confirmation dated as of September 26, 2006 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
Trade Date:	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 <sup>2</sup> : See attached spreadsheet Initial Factor: See attached spreadsheet Original Principal Amount: See attached spreadsheet Reference Policy: See attached spreadsheet
Fixed Rate Reference Obligation:	See attached spreadsheet
Floating Rate Reference Obligation:	See attached spreadsheet
Implied Writedown:	See attached spreadsheet
Interest Shortfall Compounding:	See attached spreadsheet
Initial Face Amount:	See attached spreadsheet
Fixed Rate (per annum):	See attached spreadsheet
Specified Type:	See attached spreadsheet
S&P Rating:	See attached spreadsheet

MERRILL LYNCH INTERNATIONAL

By: \_\_\_\_\_  
Name:  
Title:

OCTANS I CDO LTD.

By: \_\_\_\_\_  
Name:  
Title:

---

<sup>1</sup> There can be one for each trade or a schedule for a group of trades.

<sup>2</sup> Including any stated cap.



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George Town  
Grand Cayman, Cayman Islands

**To the Initial Purchaser**  
**Schulte Roth & Zabel LLP**  
919 Third Avenue  
New York, New York 10022

**To the Collateral Manager**  
**McDermott Will & Emery LLP**  
340 Madison Avenue  
New York, New York 10173

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**Octans I CDO Ltd.  
Octans I CDO LLC**

**U.S.\$975,000,000 Class A-1 First Priority Senior Secured Floating Rate Notes Due 2041  
U.S.\$82,500,000 Class A-2A Second Priority Senior Secured Floating Rate Notes Due 2041  
U.S.\$67,500,000 Class A-2B Third Priority Senior Secured Floating Rate Notes Due 2041  
U.S.\$60,000,000 Class B Fourth Priority Senior Secured Floating Rate Notes Due 2041  
U.S.\$80,000,000 Class C Fifth Priority Senior Secured Floating Rate Notes Due 2041  
U.S.\$15,000,000 Class D Sixth Priority Mezzanine Secured Floating Rate Notes Due 2041  
U.S.\$60,000,000 Class E Seventh Priority Mezzanine Secured Floating Rate Notes Due 2041  
U.S.\$31,000,000 Class F Eighth Priority Mezzanine Secured Floating Rate Notes Due 2041  
U.S.\$39,000,000 Class G Ninth Priority Senior Secured Floating Rate Notes Due 2041  
94,000 Preferred Securities Par Value U.S.\$0.01 Per Share**

***Backed by a Portfolio of Asset-Backed Securities, Residential Mortgaged-Backed Securities, Collateral Debt  
Obligations and Related Synthetic Securities***

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**OFFERING CIRCULAR**

**Dated September 20, 2006**

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**Merrill Lynch & Co.  
Cohen & Company Securities, LLC**