

IMPORTANT NOTICE

Attached please find an electronic copy of the offering memorandum (the “Offering Memorandum”), dated March 14, 2007, relating to (i) the Class A-1 Senior Secured Floating Rate Variable Funding Notes due 2052, the Class A-2 Senior Secured Floating Rate Notes due 2052, the Class B Secured Floating Rate Notes due 2052, the Class C Secured Deferrable Floating Rate Notes due 2052, the Class D Mezzanine Secured Deferrable Floating Rate Notes due 2052, the Class E Mezzanine Secured Deferrable Floating Rate Notes due 2052 and the Class F Mezzanine Secured Deferrable Floating Rate Notes due 2052 expected to be issued by Volans Funding 2007-1, Ltd. (the “Issuer”) and by Volans Funding 2007-1, LLC (the “Co-Issuer” and, together with the Issuer, the “Co-Issuers”) and (ii) the Preference Shares expected to be issued by the Issuer.

The Offering Memorandum is highly confidential and does not constitute an offer to any person (other than, subject to the provisions of the last five paragraphs of this notice, the recipient) or to the public generally to subscribe for or otherwise acquire the Securities described therein. The Securities described in this electronic transmission have not been, and will not be, registered under the Securities Act, or the securities laws of any state of the U.S. or other jurisdiction, and the issuer referred to in this electronic transmission will not be registered under the Investment Company Act. The Securities described in this electronic transmission may not be offered or sold within the U.S. or to, or for the account or benefit of, U.S. Persons (as defined in Regulation S), except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state or local securities laws.

The Offering Memorandum may not be forwarded or distributed to any other person and may not be reproduced in any manner whatsoever. Any forwarding, distribution, or reproduction of the Offering Memorandum in whole or in part is unauthorized. Failure to comply with this directive may result in a violation of the Securities Act or the applicable laws of other jurisdictions.

Confirmation of your Representation: To be eligible to view the Offering Memorandum or make an investment decision with respect to the Securities described in this electronic transmission, investors must be eligible to purchase the Securities described herein. See “Transfer Restrictions”. The Offering Memorandum is being sent at your request and by accepting this e-mail and accessing the Offering Memorandum, you shall be deemed to have represented to us that you consent to delivery of the Offering Memorandum by electronic transmission, and you and any customers you represent are eligible to hold the Securities.

You are reminded that the Offering Memorandum has been delivered to you on the basis that you are a person into whose possession the Offering Memorandum may be lawfully delivered in accordance with the laws of jurisdiction in which you are located and you may not, nor are you authorized to, deliver the Offering Memorandum to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by or through a licensed broker or dealer, and CALYON or any of its respective affiliates is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by or through CALYON or such affiliate on behalf of the issuer (or the co-issuer, as the case may be) in that jurisdiction.

The Offering Memorandum has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently neither CALYON, Calyon Securities (USA) Inc., nor any person who controls either such person nor any director, officer, employee, nor agent of either such person or affiliate of any such person accepts any liability or responsibility whatsoever for any difference between the Offering Memorandum distributed to you in electronic format and the hard copy version available to you on request from CALYON or Calyon Securities (USA) Inc.

DISTRIBUTION OF THE OFFERING MEMORANDUM TO ANY PERSON OTHER THAN THE PERSON RECEIVING THIS ELECTRONIC TRANSMISSION FROM THE ISSUERS, THE INITIAL PURCHASERS REFERRED TO THEREIN AND THEIR RESPECTIVE AGENTS, AND ANY PERSONS RETAINED TO ADVISE THE PERSON RECEIVING THIS ELECTRONIC TRANSMISSION FROM THE ISSUERS OR THE INITIAL PURCHASERS WITH RESPECT THERETO, IS UNAUTHORIZED. ANY PHOTOCOPYING, DISCLOSURE OR ALTERATION OF THE CONTENTS OF THE OFFERING MEMORANDUM, AND ANY FORWARDING OF A COPY OF THE OFFERING MEMORANDUM OR ANY PORTION THEREOF BY ELECTRONIC MAIL OR ANY OTHER MEANS TO ANY PERSON OTHER THAN THE PERSON RECEIVING THIS ELECTRONIC TRANSMISSION FROM THE ISSUERS OR THE INITIAL PURCHASERS, IS PROHIBITED. BY ACCEPTING DELIVERY OF THE OFFERING MEMORANDUM, THE RECIPIENT AGREES TO THE FOREGOING.

EACH PROSPECTIVE INVESTOR IN THE SECURITIES REQUESTED THAT THE INITIAL PURCHASERS PROVIDE TO SUCH PROSPECTIVE INVESTOR INFORMATION IN CONNECTION WITH SUCH PROSPECTIVE INVESTOR'S CONSIDERATION OF THE PURCHASE OF CERTAIN SECURITIES DESCRIBED IN THIS OFFERING MEMORANDUM. THIS OFFERING MEMORANDUM IS BEING PROVIDED TO EACH PROSPECTIVE INVESTOR FOR INFORMATIVE PURPOSES ONLY IN RESPONSE TO SUCH PROSPECTIVE INVESTOR'S SPECIFIC REQUEST. THE INITIAL PURCHASERS DESCRIBED IN THIS OFFERING MEMORANDUM MAY FROM TIME TO TIME PERFORM INVESTMENT BANKING SERVICES FOR, OR

SOLICIT INVESTMENT BANKING BUSINESS FROM, ANY COMPANY NAMED IN THIS OFFERING MEMORANDUM. THE INITIAL PURCHASERS AND/OR THEIR EMPLOYEES MAY FROM TIME TO TIME HAVE A LONG OR SHORT POSITION IN ANY CONTRACT OR SECURITY DISCUSSED IN THESE MATERIALS.

THE INFORMATION CONTAINED HEREIN SUPERSEDES ANY PREVIOUS SUCH INFORMATION DELIVERED TO ANY PROSPECTIVE INVESTOR AND MAY BE SUPERSEDED BY INFORMATION DELIVERED TO SUCH PROSPECTIVE INVESTOR PRIOR TO THE TIME OF CONTRACT OF SALE. THE INFORMATION CONTAINED HEREIN IS PRELIMINARY AND IS SUBJECT TO COMPLETION OR CHANGE. THE INFORMATION CONTAINED HEREIN MAY BE BASED ON PRELIMINARY ASSUMPTIONS ABOUT THE ASSETS OR PARAMETERS AND THE STRUCTURE. ANY SUCH ASSUMPTIONS ARE SUBJECT TO CHANGE. IF THERE ARE MATERIAL CHANGES BETWEEN (A) THE INFORMATION CONTAINED HEREIN AND IN ANY OTHER COMMUNICATION PRIOR TO THE TIME OF CONTRACT OF SALE AND (B) THE FINAL OFFERING MEMORANDUM, EACH INVESTOR SHOULD REVIEW THE CHANGES AND CONSIDER THEM IN CONNECTION WITH ITS INVESTMENT DECISION.

VOLANS FUNDING 2007-1, LTD. VOLANS FUNDING 2007-1, LLC

U.S.\$ 770,000,000 Class A-1 Senior Secured Floating Rate Variable Funding Notes Due 2052
U.S.\$77,500,000 Class A-2 Senior Secured Floating Rate Notes Due 2052
U.S.\$74,000,000 Class B Secured Floating Rate Notes Due 2052
U.S.\$49,000,000 Class C Secured Deferrable Floating Rate Notes Due 2052
U.S.\$44,000,000 Class D Mezzanine Secured Deferrable Floating Rate Notes Due 2052
U.S.\$34,000,000 Class E Mezzanine Secured Deferrable Floating Rate Notes Due 2052
U.S.\$13,500,000 Class F Mezzanine Secured Deferrable Floating Rate Notes Due 2052
38,000 Preference Shares with a par value of \$0.01 per share

The Notes will be backed by a Portfolio of RMBS Securities, CMBS Securities, CDO Securities, REIT Debt Securities, Mortgage Finance Company Securities and Other Asset-Backed Securities and Synthetic Securities of which the Reference Obligations are RMBS Securities, CMBS Securities, CDO Securities, REIT Debt Securities, other Asset-Backed Securities or an index representing an economic interest in any of the foregoing.

The Class A-2 Notes, Class B Notes, Class C Notes, Class D Notes, Class E Notes (collectively, the “Offered Notes”) and the Preference Shares (together with the Offered Notes, the “Offered Securities” and, together with the Class A-1 Notes and Class F Notes, the “Securities”) are being issued by Volans Funding 2007-1, Ltd., a newly formed exempted company with limited liability organized under the laws of the Cayman Islands (the “Issuer”). The Class A-1 Notes, Class A-2 Notes, Class B Notes, Class C Notes, Class D Notes, Class E Notes and Class F Notes (collectively, the “Notes”) will be co-issued by Volans Funding 2007-1, LLC, a newly formed Delaware limited liability company (the “Co-Issuer” and, together with the Issuer, the “Co-Issuers”). The “Notes” will be limited recourse debt obligations of the Co-Issuers. The Preference Shares will constitute a preferred equity interest in the Issuer only and are not being co-issued by the Co-Issuer. The Class A-1 Notes and Class F Notes are not being offered hereunder. The Collateral (as defined herein) securing the Notes will be managed by VERO Capital Management, LLC, a Delaware limited liability company (“VERO” or the “Collateral Manager”).

Investing in the Offered Securities involves risks. See the section entitled “Risk Factors” for a discussion of certain risks arising from investing in the Offered Securities.

The Securities 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. None of the Issuer, the Co-Issuer or the pool of Collateral has been registered under the Investment Company Act of 1940, as amended (the “Investment Company Act”) in reliance on the exemption provided by Section 3(c)(7) thereof. The Offered Securities are being offered only (a) in the United States in reliance upon an exemption from the registration requirements of the Securities Act to “Qualified Institutional Buyers” (as defined in Rule 144A under the Securities Act), and, solely in the case of the Class E Notes, the Class F Notes and the Preference Shares, to institutional “accredited investors” (“Institutional Accredited Investors”) (meeting the description set forth in Rule 501(a)(1), (2), (3) or (7) of Regulation D under the Securities Act) (“Regulation D”), who are also Qualified Purchasers (as defined herein) and (b) outside the United States in compliance with Regulation S under the Securities Act to persons who are not U.S. Persons (as defined in Regulation S). Each Original Purchaser of a Note and each Original Purchaser of a Preference Share that is not a U.S. Person and is purchasing in an offshore transaction under Regulation S will be deemed, and each Original Purchaser of a Preference Share that is a U.S. Person or purchases pursuant to a transaction in the United States will be required in a subscription agreement, to make certain acknowledgments, representations and agreements. See “Purchase and Transfer Restrictions”.

Interest on the Notes is payable in arrears on the 10th day of each month (each, a “Monthly Distribution Date”); provided that the first Monthly Distribution Date will be April 12, 2007. The Notes will mature on the Monthly Distribution Date occurring in March 2052. Holders of the Preference Shares will not be entitled to any interest payments or distributions at a set rate but will be entitled to certain distributions of amounts on the 10th of March, June, September and December of each year (each a “Quarterly Distribution Date”) in accordance with the Priority of Payments. If any such Distribution Date is not a Business Day, the relevant Distribution Date will be the next succeeding Business Day. The Preference Shares are scheduled to be redeemed on the Distribution Date occurring in March 2052, but may be redeemed on any Monthly Distribution Date prior to such date as set forth herein. The Notes are redeemable as described under the captions “Description of the Notes—Mandatory Redemption” “—Auction Call Redemption” “—Optional Redemption and Tax Redemption” and “—Clean-Up Call Redemption”.

Securities	Interest Rate	Standard & Poor's/Moody's/Fitch Rating
Class A-1 Notes ⁽¹⁾	1-month LIBOR + 0.24% ⁽²⁾	“AAA”/“Aaa”/“AAA”
Class A-2 Notes	1-month LIBOR + 0.50%	“AAA”/“Aaa”/“AAA”
Class B Notes	1-month LIBOR + 0.65%	“AA”/“Aa2”/“AA”
Class C Notes	1-month LIBOR + 2.75%	“A”/“A2”/“A”
Class D Notes	1-month LIBOR + 7.00%	“BBB”/“Baa2”/“BBB”
Class E Notes	1-month LIBOR + 9.00%	“BBB”/“Baa3”/“BBB”
Class F Notes ⁽¹⁾	1-month LIBOR + 0.00%	“BBB”/“Baa3”/“BBB”
Preference Shares	Residual	NR/NR/NR

(1) The Class A-1 Notes and Class F Notes are being separately placed and are not being offered hereunder.

(2) The Class A-1 Notes will also be entitled to a commitment fee of 0.15% on the aggregate unfunded principal amount thereof.

The Offered Securities are being offered by CALYON Corporate and Investment Bank, the marketing name for CALYON, a French banking corporation, and Calyon Securities (USA) Inc., a New York corporation (collectively, the “Initial Purchasers”) to prospective purchasers from time to time at varying prices in individually negotiated transactions to be determined at the time of sale. It is expected that the Initial Purchasers will purchase the Preference Shares at a price equal to approximately 34.92031% of the aggregate liquidation preference thereof. It is expected that the Initial Purchasers will purchase the Class F Notes at a price equal to approximately 98.00210% of the aggregate principal amount thereof. The Initial Purchasers expect to deliver the Offered Securities to purchasers on or about March 14, 2007 (the “Closing Date”). References to CALYON in its capacity as an Initial Purchaser in this Offering Memorandum means the following

in the following locations: (i) if the investor is located in the United States of America, Calyon Securities (USA) Inc., (ii) if the investor is located in Europe, CALYON, or any of its affiliates and (iii) if the investor is located in a jurisdiction other than as set out in (i) and (ii) above, CALYON or its local affiliate.

Application will be made to list the Offered Securities on the Cayman Islands Stock Exchange (the "Cayman Stock Exchange"). There can be no assurance that any such listing will be obtained or, if it is obtained, will be maintained for the entire period that the Offered Securities are outstanding. The issuance and settlement of the Securities on the Closing Date are not conditioned on the listing of the Securities on the Cayman Stock Exchange.

CALYON

March 13, 2007

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 CO-ISSUERS, THE INITIAL PURCHASERS, THE COLLATERAL MANAGER, THE TRUSTEE, ANY HEDGE COUNTERPARTY, THE CREDIT DEFAULT SWAP COUNTERPARTY OR THEIR RESPECTIVE AFFILIATES. THIS OFFERING MEMORANDUM DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, ANY OF THE OFFERED SECURITIES OFFERED HEREBY BY ANY PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL FOR SUCH PERSON TO MAKE SUCH AN OFFER OR SOLICITATION. NEITHER THE DELIVERY HEREOF NOR ANY SALE MADE HEREUNDER SHALL UNDER ANY CIRCUMSTANCES IMPLY THAT NO CHANGE IN THE AFFAIRS OF THE ISSUER OR THE CO-ISSUER HAS OCCURRED OR THAT THE INFORMATION HEREIN IS CORRECT AS OF ANY DATE SUBSEQUENT TO THE DATE HEREOF. THE CO-ISSUERS AND THE INITIAL PURCHASERS RESERVE THE RIGHT TO REJECT ANY OFFER TO PURCHASE IN WHOLE OR IN PART, FOR ANY REASON, OR TO SELL LESS THAN THE MINIMUM DENOMINATION OF ANY CLASS OF NOTES OR MINIMUM LOTS OF THE PREFERENCE SHARES.

Neither of the Co-Issuers nor the pool of Collateral has been registered under the Investment Company Act of 1940, as amended (the “Investment Company Act”). Each purchaser of the Offered Securities represented by an interest in a Global Security will be deemed to have represented and agreed that the purchaser is acquiring the Offered Securities for its own account or for one or more accounts as to each of which the purchaser exercises sole investment discretion and in a principal amount of not less than U.S.\$500,000 and multiples of U.S.\$1,000 in excess thereof in the case of the Notes and lots of 100 and increments of one in excess thereof in the case of the Preference Shares. The Notes (other than the Class E Notes or Class F Notes sold to Institutional Accredited Investors that are not Qualified Institutional Buyers) sold or transferred in the United States or to U.S. Persons will be represented by one or more global notes in fully-registered book-entry form without coupons attached. The Notes sold or transferred to Institutional Accredited Investors that are not Qualified Institutional Buyers sold or transferred in the United States or to U.S. Persons will be represented by one or more certificates in definitive, fully registered form, registered in the name of the legal and beneficial owner thereof. The Preference Shares will be represented by (i) in the case of Preference Shares sold or transferred in the United States or to U.S. Persons, one or more certificates in definitive, fully registered form, registered in the name of the legal and beneficial owner thereof and (ii) in the case of Preference Shares sold or transferred outside the United States to persons that are not U.S. Persons, one or more permanent global preference shares in fully-registered book-entry form without coupons attached. Each purchaser of the Notes represented by an interest in a Rule 144A Global Note and each such account will also be deemed to have represented and agreed that it is a “qualified purchaser” as defined in, and for purposes of, Rule 2(a)(51(A) of the Investment Company Act. Each Institutional Accredited Investor purchasing a Note represented by a Restricted Definitive Note will represent that it is an Institutional Accredited Investor. See “Transfer Restrictions”.

This Offering Memorandum has been prepared by the Co-Issuers solely for use in connection with the offering and the listing of the Offered Securities described herein. Other than as expressly excepted herein, the Co-Issuers accept responsibility for the information contained in this document. To the best of the 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.

No representation or warranty, express or implied, is made by the Initial Purchasers, any Hedge Counterparty or any Affiliate of a Hedge Counterparty, the Credit Default Swap Counterparty or the Collateral Manager or any of their respective Affiliates (except (i) in the case of the Collateral Manager, with respect to the information set forth in the section entitled “The Collateral Manager” (other than information set forth under the subheading “General” contained therein) and (ii) in the case of the Credit Default Swap Counterparty and the Class A-1 Noteholder with respect to the information set forth in the section entitled “The Initial Credit Default Swap Counterparty and Class A-1 Noteholder”) as to the accuracy or completeness of the information set forth herein, and nothing contained herein is, or shall be relied upon as, a promise or representation as to the past or the future. None of the Initial Purchasers, the Credit Default Swap Counterparty, the Trustee, the initial Class A-1 Noteholder, any Hedge

Counterparty, or the Collateral Manager or their respective Affiliates (except (i) in the case of the Collateral Manager, with respect to the information set forth in the section entitled “The Collateral Manager” (other than information set forth under the subheading “General” contained therein) and (ii) in the case of the Credit Default Swap Counterparty and the Class A-1 Noteholder, with respect to the information set forth in the section entitled “The Initial Credit Default Swap Counterparty and Class A-1 Noteholder”) have independently verified any such information or assume responsibility for its accuracy or completeness. This Offering Memorandum includes information given in compliance with the listing rules of the Cayman Stock Exchange. The Co-Issuers accept full responsibility for the accuracy of the information contained in this Offering Memorandum (except with respect to the information set forth in the section entitled “The Collateral Manager” (other than information set forth under the subheading “General” contained therein) and “The Initial Credit Default Swap Counterparty and Class A-1 Noteholder”) and confirm, having made reasonable enquiry, that to the best of their knowledge and belief there are no facts the omission of which would make any statement within the listing document misleading. The Co-Issuers accept responsibility for the accurate reproduction of any information provided to the Co-Issuers by the Collateral Manager, the Credit Default Swap Counterparty, the Class A-1 Noteholder for inclusion in the Offering Memorandum. The Cayman Stock Exchange takes no responsibility for the contents of this document, makes no representations as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss arising from or in reliance upon any part of this document.

In this Offering Memorandum, references to “U.S. Dollar”, “Dollars”, “\$” and “U.S.\$” are to United States dollars.

This Offering Memorandum does not constitute an offer to sell or the solicitation of an offer to buy the Offered Securities in any jurisdiction in which such offer or solicitation is unlawful.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE CO-ISSUERS AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE OFFERED SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR ANY OTHER REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THIS OFFERING MEMORANDUM CONTAINS LISTING PARTICULARS (THE “LISTING PARTICULARS”) FOR THE PURPOSE OF THE LISTING OF THE OFFERED SECURITIES ON THE CAYMAN STOCK EXCHANGE. A COPY OF THE LISTING PARTICULARS WILL BE FILED WITH THE CAYMAN STOCK EXCHANGE AND WILL BE ON DISPLAY AT THE OFFICES OF THE ISSUER AND THE CAYMAN STOCK EXCHANGE FOR A PERIOD OF 14 DAYS FROM THE DATE OF LISTING. COPIES OF THE LISTING PARTICULARS WILL BE AVAILABLE FREE OF CHARGE FROM THE CAYMAN STOCK EXCHANGE.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421 B OF THE NEW HAMPSHIRE REVISED STATUTES ANNOTATED (“RSA 421 B”) 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 OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421 B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A

TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO CONNECTICUT RESIDENTS

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

NOTICE TO FLORIDA RESIDENTS

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

NOTICE TO GEORGIA RESIDENTS

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

No invitation to subscribe for any Securities may be made to the public in the Cayman Islands, and this Offering Memorandum may not be issued or passed to any such person unless, at the time of invitation, such Securities are listed on the Cayman Stock Exchange. Application will be made to list the Securities on the Cayman Stock Exchange; however, there can be no assurance that such listing will be obtained or, if it is obtained, will be maintained for the entire period that the Securities are outstanding.

IRS CIRCULAR 230 NOTICE

THIS OFFERING MEMORANDUM WAS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, FOR THE PURPOSES OF AVOIDING U.S. FEDERAL, STATE, OR LOCAL TAX PENALTIES. THIS OFFERING MEMORANDUM WAS WRITTEN AND PROVIDED BY THE CO-ISSUERS IN CONNECTION WITH THE PROMOTION OR MARKETING BY THE CO-ISSUERS AND/OR INITIAL PURCHASERS OF THE SECURITIES. EACH HOLDER OF THE SECURITIES SHOULD SEEK ADVICE BASED ON ITS PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

EACH PURCHASER OF THE SECURITIES MUST COMPLY WITH ALL APPLICABLE LAWS AND REGULATIONS IN FORCE IN EACH JURISDICTION IN WHICH IT PURCHASES, OFFERS OR SELLS SUCH SECURITIES OR POSSESSES OR DISTRIBUTES THIS OFFERING MEMORANDUM AND MUST OBTAIN ANY CONSENT, APPROVAL OR PERMISSION REQUIRED FOR THE PURCHASE, OFFER OR SALE BY IT OF SUCH SECURITIES UNDER THE LAWS AND REGULATIONS IN FORCE IN ANY JURISDICTIONS TO WHICH IT IS SUBJECT OR IN WHICH IT MAKES SUCH PURCHASES, OFFERS OR SALES, AND NONE OF THE CO-ISSUERS, THE INITIAL PURCHASERS, THE COLLATERAL MANAGER, THE TRUSTEE, ANY HEDGE COUNTERPARTY OR ITS GUARANTOR, THE CREDIT DEFAULT SWAP

COUNTERPARTY, THE CLASS A-1 NOTEHOLDER OR THE COLLATERAL ADMINISTRATOR SHALL HAVE ANY RESPONSIBILITY THEREFOR.

AVAILABLE INFORMATION

To permit compliance with Rule 144A in connection with the resale of the Securities, the Co-Issuers will be required under the Indenture to furnish upon request to a holder or beneficial owner of a Note and to a prospective investor who is a Qualified Institutional Buyer designated by such holder or beneficial owner, the information required to be delivered under Rule 144A(d)(4) if, at the time of the request neither the Issuer nor the Co-Issuer is a reporting company under Section 13 or Section 15(d) of the United States Securities Exchange Act of 1934, as amended (the “Exchange Act”), or is exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act.

FORWARD LOOKING STATEMENTS

Any projections, forecasts and estimates contained herein are forward looking statements and are based upon certain assumptions that the Co-Issuers and the Initial Purchasers 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, differences in the allocation of the Collateral Debt Securities among asset categories, 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, defaults under Collateral Debt Securities and the effectiveness of the Class A-1 Note Purchase Agreement, Credit Default Swap Agreement and 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 Collateral Manager, the Trustee, the Initial Purchasers, the Class A-1 Noteholder, 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 Collateral Manager, the Trustee, the Initial Purchasers, the Class A-1 Noteholder, the Credit Default Swap Counterparty, any Hedge Counterparty nor any of 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.

INFORMATION AS TO PLACEMENT WITHIN THE 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”), with effect from and including the date on which the Prospectus Directive is implemented in that relevant Member State (the “Relevant Implementation Date”) no offer of Offered Securities has been made or will be made to the public in that relevant Member State prior to the publication of a prospectus in relation to the Offered 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, except that, with effect from and including the Relevant Implementation Date, make an offer of Offered Securities to the public in that relevant Member State at any time:

- (a) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- (b) 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 net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or

(c) 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 Offered Securities to the public” in relation to any Offered 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 Offered Securities to be offered so as to enable an investor to decide to purchase or subscribe the Offered 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.

INFORMATION AS TO PLACEMENT WITHIN GERMANY

THE OFFERED SECURITIES HAVE NOT BEEN REGISTERED OR AUTHORIZED FOR PUBLIC OFFER OR PUBLIC DISTRIBUTION UNDER GERMAN LAW. ACCORDINGLY, THE OFFERED SECURITIES MAY NOT BE DISTRIBUTED TO OR WITHIN GERMANY BY WAY OF A PUBLIC OFFER WITHIN THE MEANING OF APPLICABLE GERMAN LAWS, PUBLIC ADVERTISEMENT OR IN ANY SIMILAR MANNER AND THIS OFFERING MEMORANDUM AND ANY OTHER DOCUMENT RELATING TO THE OFFERED SECURITIES, AS WELL AS INFORMATION CONTAINED THEREIN, MAY NOT BE SUPPLIED TO THE PUBLIC IN GERMANY OR USED IN CONNECTION WITH ANY OFFER FOR SUBSCRIPTION OF THE OFFERED SECURITIES TO THE PUBLIC IN GERMANY OR ANY OTHER MEANS OF PUBLIC MARKETING. THIS OFFERING MEMORANDUM AND OTHER OFFERING MATERIALS RELATING TO THE OFFER OF THE OFFERED SECURITIES ARE STRICTLY CONFIDENTIAL AND MAY NOT BE DISTRIBUTED TO ANY PERSON OR ENTITY OTHER THAN THE RECIPIENT HEREOF TO WHOM THIS OFFERING MEMORANDUM IS PERSONALLY ADDRESSED. PROSPECTIVE GERMAN INVESTORS MUST REVIEW “RISK FACTORS—GERMAN INVESTMENT TAX ACT” AND ARE URGED TO SEEK INDEPENDENT TAX ADVICE.

INFORMATION AS TO PLACEMENT WITHIN HONG KONG

No person may offer or sell in Hong Kong, by means of any document, any Offered Securities other than (a) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that ordinance; or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance.

No person may issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere any advertisement, invitation or document relating to the Offered Securities, which is directed at, or the contents of which are likely to be accessed or read by the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the securities which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made thereunder.

INFORMATION AS TO PLACEMENT WITHIN THE NETHERLANDS

EACH OF THE INITIAL PURCHASERS HAS REPRESENTED AND AGREED THAT WITHIN THE NETHERLANDS IT HAS NOT, DIRECTLY OR INDIRECTLY, OFFERED, SOLD, TRANSFERRED OR DELIVERED AND WILL NOT, DIRECTLY OR INDIRECTLY, OFFER, SELL, TRANSFER OR DELIVER ANY OFFERED SECURITIES (INCLUDING RIGHTS REPRESENTING AN INTEREST IN A GLOBAL CERTIFICATE) IN DENOMINATIONS LESS THAN €50,000 OR U.S.\$50,000 (OR THE EQUIVALENT THEREOF IN OTHER CURRENCIES).

INFORMATION AS TO PLACEMENT WITHIN THE UNITED KINGDOM

This Offering Memorandum and any other document prepared in connection with the offering and issuance of the Offered Securities may only be communicated or caused to be communicated in the United Kingdom to a person in circumstances specified in the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 in which Section 21(1) of the Financial Services and Markets Act 2000 (the “FSMA”) does not apply to the Issuer.

NOTICE TO RESIDENTS OF THE UNITED KINGDOM

THIS PROSPECTUS IS DIRECTED ONLY AT PERSONS WHO HAVE PROFESSIONAL EXPERIENCE IN MATTERS RELATING TO INVESTMENTS AND WHO QUALIFY EITHER AS INVESTMENT PROFESSIONALS IN ACCORDANCE WITH ARTICLE 19(5), OR AS HIGH NET WORTH COMPANIES, UNINCORPORATED ASSOCIATIONS, PARTNERSHIPS OR TRUSTEES IN

ACCORDANCE WITH ARTICLE 49(2), OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005 (TOGETHER, “EXEMPT PERSONS”). IT MAY NOT BE PASSED ON EXCEPT TO EXEMPT PERSONS OR OTHER PERSONS IN CIRCUMSTANCES IN WHICH SECTION 21(1) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 DOES NOT APPLY TO THE ISSUER (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS “RELEVANT PERSONS”). THIS PROSPECTUS MUST NOT BE ACTED ON OR RELIED ON BY PERSONS WHO ARE NOT RELEVANT PERSONS. ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THE PROSPECTUS RELATES IS AVAILABLE ONLY TO RELEVANT PERSONS AND WILL BE ENGAGED IN ONLY WITH RELEVANT PERSONS. ANY PERSONS OTHER THAN RELEVANT PERSONS SHOULD NOT ACT OR RELY ON THIS PROSPECTUS.

POTENTIAL INVESTORS IN THE UNITED KINGDOM ARE ADVISED THAT ALL, OR MOST, OF THE PROTECTIONS AFFORDED BY THE UNITED KINGDOM REGULATORY SYSTEM WILL NOT APPLY TO AN INVESTMENT IN THE OFFERED SECURITIES AND THAT COMPENSATION WILL NOT BE AVAILABLE UNDER THE UNITED KINGDOM FINANCIAL SERVICES COMPENSATION SCHEME.

NOTWITHSTANDING ANYTHING TO THE CONTRARY CONTAINED IN THIS OFFERING MEMORANDUM, ALL PERSONS MAY DISCLOSE TO ANY AND ALL PERSONS, WITHOUT LIMITATION OF ANY KIND, THE U.S. FEDERAL, STATE AND LOCAL TAX TREATMENT OF THE SECURITIES AND THE ISSUER, ANY FACT THAT MAY BE RELEVANT TO UNDERSTANDING THE U.S. FEDERAL, STATE AND LOCAL TAX TREATMENT OF THE SECURITIES AND THE ISSUER, AND ALL MATERIALS OF ANY KIND (INCLUDING OPINIONS OR OTHER TAX ANALYSES) RELATING TO SUCH U.S. FEDERAL, STATE AND LOCAL TAX TREATMENT AND THAT MAY BE RELEVANT TO UNDERSTANDING SUCH TAX TREATMENT.

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SUMMARY OF TERMS

The following summary does not purport to be complete and is qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing elsewhere in this Offering Memorandum. An Index of Defined Terms identifying the location of defined terms and a Glossary setting forth the definitions of terms used but not defined in the body of this Offering Memorandum appear at the back of this Offering Memorandum.

Securities Issued:..... The Co-Issuers expect to issue on the Closing Date:

- U.S.\$770,000,000 aggregate principal amount Class A-1 Senior Secured Floating Rate Variable Funding Notes due 2052 (the “Class A-1 Notes”);
- U.S.\$77,500,000 aggregate principal amount Class A-2 Senior Secured Floating Rate Notes due 2052 (the “Class A-2 Notes” and, together with the Class A-1 Notes, the “Class A Notes”);
- U.S.\$74,000,000 aggregate principal amount Class B Secured Floating Rate Notes due 2052 (the “Class B Notes”);
- U.S.\$49,000,000 aggregate principal amount Class C Secured Deferrable Floating Rate Notes due 2052 (the “Class C Notes”);
- U.S.\$44,000,000 aggregate principal amount Class D Mezzanine Secured Deferrable Floating Rate Notes due 2052 (the “Class D Notes”);
- U.S.\$34,000,000 aggregate principal amount Class E Mezzanine Secured Deferrable Floating Rate Notes due 2052 (the “Class E Notes”); and
- U.S.\$13,500,000 aggregate principal amount Class F Mezzanine Secured Deferrable Floating Rate Notes due 2052 (the “Class F Notes”).

The Class A-2 Notes, Class B Notes, Class C Notes, Class D Notes, Class E Notes and the Preference Shares are referred to herein as the “Offered Securities”. The Class A-1 Notes and Class F Notes are not being offered hereby.

The Class A Notes, Class B Notes, Class C Notes, Class D Notes, Class E Notes and Class F Notes are together referred to as the “Notes”. The Class A-2 Notes, Class B Notes, Class C Notes, Class D Notes, Class E Notes and Class F Notes are together referred to herein as the “Term Notes”.

The Issuer expects to issue on the Closing Date 38,000 Preference Shares, with a par value of U.S.\$0.01 per share and an aggregate liquidation preference of U.S.\$1,000 per share (the “Preference Shares”). The Notes and the Preference Shares are referred to collectively herein as the “Securities”.

The Notes will be issued and secured pursuant to an Indenture to be dated as of the Closing Date (the “Indenture”), between the Issuer, the Co-Issuer and LaSalle Bank National Association, as trustee (in such capacity, together with its successors in such capacity, the “Trustee”).

The Class A-1 Notes will also be subject to the provisions of the Class A-1 Note Purchase Agreement dated as of the Closing Date (the “Class A-1 Note Purchase Agreement”), between the Issuer, the Co-Issuer, CALYON, as purchaser of the Class A-1 Notes and LaSalle Bank National Association, as the Class A-1 Note Agent (the “Class A-1 Note Agent”). Each of the Collateral Manager, the Hedge Counterparties and the Credit Default Swap Counterparty 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, the Collateral Manager, the Credit Default Swap Counterparty, each Hedge Counterparty, the Trustee and certain other providers of services to the Issuer (collectively, the “Secured Parties”). See “Description of the Notes—Status and Security”.

The Preference Shares will be issued pursuant to the Memorandum and Articles of Association and certain resolutions of the Directors of the Issuer passed prior to the Closing Date (collectively, the “Issuer Charter”). Distributions on the Preference Shares will also be subject to the provisions of a Preference Share Paying Agency Agreement dated as of the Closing Date (the “Preference Share Paying Agency Agreement” and together with the Issuer Charter and resolutions of the Issuer, the “Preference Share Documents”) between the Issuer, LaSalle Bank National Association, as transfer agent and paying agent on the Preference Shares (in such capacity, the “Preference Share Paying Agent”) and Maples Finance Limited as preference share registrar (the “Preference Share Registrar”). The Trustee will also act as paying agent for the Notes, as calculation agent and transfer agent for the Notes and as LIBOR calculation agent under the Indenture.

The holders of the Notes of each Class will be entitled to receive payments *pari passu* among themselves.

Except as otherwise described in the Priority of Payments with respect to the Interest Proceeds, the relative order of seniority of payment of each Class of Notes is as follows: *first*, Class A-1 Notes (including, in the case of the Class A-1 Notes, the Class A-1 Commitment Fee), *second*, Class A-2 Notes, *third*, Class B Notes, *fourth*, Class C Note, *fifth*, Class D Notes, *sixth*, Class E Notes and *seventh*, Class F Notes, with (a) each Class of Notes in such list being “Senior” or in “Seniority” to each other Class of Notes that follows such Class of Notes in such list and (b) each Class of Notes in such list being “Subordinate” to each other Class of Notes that precedes such Class of Notes in such list. No payment of interest on any Class of Notes will be made until all accrued and unpaid interest on the Notes of each Class that is Senior to such Class and that remain outstanding has been paid in full.

With respect to Principal Proceeds, the relative order of Seniority of payment of each Class of Notes is as follows: *first*, Class A-1 Notes, *second*, Class A-2 Notes, *third*, Class B Notes, *fourth*, Class C Notes, *fifth*, Class D Notes, *sixth*, Class E Notes and *seventh*, Class F Notes, except that after the end of the Reinvestment Period, Principal Proceeds will, so long as the Pro Rata Payment Conditions are satisfied as of the

related Determination Date, be applied on each Monthly Distribution Date as set forth in the Priority of Payments.

If a Ratings Confirmation Failure occurs and a Proposed Plan cannot be agreed to by the Collateral Manager on behalf of the Issuer, the Rating Agencies, the Credit Default Swap Counterparty and the Class A-1 Noteholder, the Issuer will be required to apply on the Monthly Distribution Date relating to the first Determination Date occurring thereafter *first*, Excess Reserve Account Assets, *second*, Interest Proceeds and *third*, Principal Proceeds to *first*, the reduction of the Remaining Unfunded Class A-1 Commitment Amount until the Remaining Unfunded Class A-1 Commitment Amount is reduced to zero by making a deposit to the Reserve Account and *second*, the payment of principal of the Notes (sequentially in direct order of Seniority) in accordance with the Priority of Payments and as and to the extent necessary to obtain a Ratings Confirmation.

In addition, Interest Proceeds may be applied to the payment of principal of the Notes only (i) in the event of a Ratings Confirmation Failure (to the extent a Proposed Plan cannot be agreed to by the Collateral Manager on behalf of the Issuer, the Rating Agencies, the Credit Default Swap Counterparty and the Class A-1 Noteholder and (ii) if the Preference Shareholders have received at least the Target Return I on the relevant Quarterly Distribution Date, in which case a portion of the remaining Interest Proceeds will be applied to pay principal, *pro rata*, of the Class D Notes, Class E Notes and Class F Notes in accordance with the Priority of Payments.

The obligations of the Issuer to the Credit Default Swap Counterparty under the Credit Default Swap Agreement, to the Closing Date Swap Counterparty under the Closing Date Swap Agreement and to any Hedge Counterparty under the relevant Hedge Agreement will be senior to the obligations of the Issuer to pay the principal amount of, and interest on, the Notes (except in the case of any Defaulted Synthetic Termination Payment and any termination payment due to the default of a Hedge Counterparty). On each Monthly Distribution Date, Principal Proceeds that would otherwise be available to reinvest in Collateral Debt Securities may otherwise be applied in accordance with the Priority of Payments to reduce the funded Aggregate Outstanding Amount of the Class A-1 Notes in accordance with the Priority of Payments.

See “Description of the Notes—Priority of Payments”.

The Co-Issuers:

Volans Funding 2007-1, Ltd. (the “Issuer”) is an exempted company with limited liability that was incorporated on January 2, 2007 under the Companies Law (2004 Revision) of the Cayman Islands pursuant to the Issuer Charter. The Issuer was established as a special purpose vehicle for the purpose of issuing asset-backed securities. The entire authorized share capital of the Issuer consists of (a) 250 ordinary shares, par value U.S.\$1.00 per share, all of which have been issued and are held in trust for one or more charitable purposes in the Cayman Islands by Maples Finance Limited (the “Share Trustee”) under the terms of a declaration of trust and (b) 38,000 Preference Shares, par value U.S.\$0.01 per share and an aggregate liquidation preference of U.S.\$1,000 per share. The Indenture will provide that the activities of

the Issuer are limited to (1) acquiring and disposing of, and investing and reinvesting in, Collateral Debt Securities, Equity Securities, Reserve Account Investments, U.S. Agency Securities and Eligible Investments for its own account, (2) entering into and performing its obligations under the Indenture, the Class A-1 Note Purchase Agreement, any Hedge Agreement, the Closing Date Swap Agreement, the Credit Default Swap Agreement, the Collateral Management Agreement, the Collateral Administration Agreement, the Securities Purchase Agreement, the Preference Share Paying Agency Agreement and each Subscription Agreement, (3) issuing and selling the Offered Securities, (4) pledging the Collateral as security for its obligations in respect of the Notes and otherwise for the benefit of the Secured Parties, (5) owning the membership interests in the Co-Issuer, (6) entering into the Subscription Agreements and (7) other activities incidental to the foregoing.

Volans Funding 2007-1, LLC, a Delaware limited liability company (the “Co-Issuer” and, together with the Issuer, the “Co-Issuers”), was formed on January 9, 2007 for the sole purpose of co-issuing the Notes. All of the membership interests in the Co-Issuer will be owned by the Issuer.

The Issuer will not have any material assets other than the Collateral Debt Securities (including its rights under any Synthetic Security, including any Credit Default Swap Agreement), Equity Securities, Eligible Investments and rights under the Collateral Management Agreement, the Class A-1 Note Purchase Agreement, the Closing Date Swap Agreement, the Credit Default Swap Agreement and any Hedge Agreement and under certain other agreements entered into as described herein, and the membership interests in the Co-Issuer.

The Co-Issuer will not have any assets (other than the proceeds of its membership interests, being U.S.\$10) and will not pledge any assets to secure the Notes. The Co-Issuer will not have any interest in any Collateral held by the Issuer.

Closing Date: March 14, 2007

Collateral Manager: VERO Capital Management, LLC, a Delaware limited liability company (“VERO” or the “Collateral Manager”) will select and manage the Collateral under a collateral management agreement to be entered into between the Issuer and the Collateral Manager (the “Collateral Management Agreement”). Pursuant to the Collateral Management Agreement and in accordance with the Indenture, the Collateral Manager will manage the selection, acquisition and disposition of the Collateral Debt Securities on behalf of the Issuer (including exercising rights and remedies associated with the Collateral Debt Securities) based on the restrictions set forth in the Indenture (including the Investment Criteria described herein) and on the Collateral Manager’s research, credit analysis and judgment (in each such case, subject to the standard of care set forth in the Collateral Management Agreement). The Collateral Manager will also monitor the Hedge Agreements, the Credit Default Swap Agreement and the Class A-1 Note Purchase Agreement on behalf of the Issuer. The Collateral Manager will receive certain fees for such management functions, including, on each Monthly Distribution Date, the Senior Collateral Management Fee and the Tier 1 Subordinated Collateral

Management Fee (in each case, to the extent funds are available therefor pursuant to the Priority of Payments set forth in the Indenture and described herein) and on each Quarterly Distribution Date, the Tier 2 Subordinate Collateral Management Fee (to the extent funds are available therefor pursuant to the Priority of Payments set forth in the Indenture and described herein). For a summary of the provisions of the Collateral Management Agreement and certain other information concerning the Collateral Manager and key individuals associated therewith who will be managing the Issuer's portfolio, see "The Collateral Manager" and "The Collateral Management Agreement".

Use of Proceeds:

The gross proceeds received from the issuance and sale of the Securities on the Closing Date and the net up-front payment received pursuant to the Closing Date Swap Agreement will be approximately U.S.\$340,000,000. The Class A-1 Notes will not be funded as of the Closing Date. The estimated total expenses relating to the issuance of the Securities are approximately U.S.\$9,500,000 (the "Closing Date Expenses"). The net proceeds from the issuance and sale of the Offered Securities on the Closing Date and the up-front payment under the Closing Date Swap Agreement (assuming payment of the Closing Date Expenses) are expected to be approximately U.S.\$330,500,000. Such net proceeds will be used by the Issuer as described under "Use of Proceeds". The Issuer will pay the Closing Date Expenses on the Closing Date to the extent the Issuer has received invoices therefor and, in the case of anticipated Closing Date Expenses with respect to which invoices have not been received by the Business Day prior to the Closing Date, will make a deposit to the Closing Date Expense Reserve Account. Amounts remaining in the Closing Date Expense Reserve Account on the determination date related to the first Distribution Date will be transferred to the Reserve Account. See "Security for the Notes".

Variable Funding of

Class A-1 Notes:

Although all U.S.\$770,000,000 in aggregate principal amount of Class A-1 Notes will be issued on the Closing Date, it is anticipated that the Class A-1 Notes will not be funded on the Closing Date. The Class A-1 Noteholders will be required, pursuant to the Class A-1 Note Purchase Agreement, to fund borrowings under the Class A-1 Notes on a revolving basis upon request (subject to certain conditions set forth in the Class A-1 Note Purchase Agreement), for the purpose of providing liquidity to the Issuer to be used by the Issuer to satisfy its obligations under CDS Agreement Transactions after the Issuer applies funds standing to the credit of *first*, only with respect to Interest Shortfall payments, the Interest Collection Account; *provided* that application of such funds from the Interest Collection Account shall not cause a default in the payment of interest or commitment fee, as applicable, due and payable on the Class A Notes or Class B Notes on the immediately following Distribution Date, *second*, the Principal Collection Account until the balance in such account is reduced to zero and *third*, the Reserve Account until the balance in such account is reduced to zero. The aggregate funded amount of the Class A-1 Notes will not exceed U.S.\$770,000,000. The Class A-1 Noteholder will be required at all times to satisfy certain ratings requirements. Failure to satisfy such requirements or failure to perform certain of the funding obligations set forth in the Class A-1 Note Purchase Agreement will result in a requirement that such Class A-1 Noteholder transfer its interest in the

Class A-1 Notes or deposit Eligible Investments equal to the entire amount of its outstanding commitments to the Issuer at such time in a securities account. Such Class A-1 Noteholder will be entitled to interest earnings on such Eligible Investments but no interest or Commitment Fee will accrue in respect of the Class A-1 Notes held by such Class A-1 Noteholder until such time as the Class A-1 Noteholder satisfies the ratings requirements or cures such failure to perform (if such failure is capable of being cured).

The Class A-1 Notes will be entitled to a commitment fee (the "Class A-1 Commitment Fee") on the undrawn principal amount of the Class A-1 Notes for each day from and including the Closing Date to but excluding the Class A-1 Commitment Termination Date at a rate per annum equal to 0.15% per annum. The Class A-1 Commitment Fee is pari passu with the interest payable on the Class A-1 Notes.

The Commitment Fee on the Class A-1 Notes is payable monthly in arrears on each Monthly Distribution Date.

Interest Payments on

the Notes:.....

Upon funding of the Class A-1 Notes, such funded portion of the Class A-1 Notes (based on the average daily balance on each day in the applicable Interest Period) will cease accruing the Class A-1 Commitment Fee and will bear interest at a floating rate *per annum* equal to one-month LIBOR *plus* 0.24%. The Remaining Unfunded Class A-1 Commitment Amount will accrue the Class A-1 Commitment Fee (based on the average daily balance on each day in the applicable Interest Period) at a fixed rate *per annum* equal to 0.15%.

The Class A-2 Notes will bear interest at a floating rate per annum equal to one-month LIBOR plus 0.50%.

The Class B Notes will bear interest at a floating rate per annum equal to one-month LIBOR plus 0.65%.

The Class C Notes will bear interest at a floating rate per annum equal to one-month LIBOR plus 2.75%.

The Class D Notes will bear interest at a floating rate per annum equal to one-month LIBOR plus 7.00%.

The Class E Notes will bear interest at a floating rate per annum equal to one-month LIBOR plus 9.00%.

The Class F Notes will bear interest at a floating rate per annum equal to one-month LIBOR plus 0.00%.

Interest on the Notes and interest on Defaulted Interest or Deferred Interest in respect thereof will be computed on the basis of a 360-day year and the actual number of days elapsed.

Interest on the Term Notes and the Commitment Fee on the Class A-1 Notes, will accrue from the Closing Date. Interest on the Class A-1 Notes will accrue from (and including) the date so funded. Accrued and unpaid interest (and the Commitment Fee with respect to the Class A-1 Notes) on the Notes will be payable monthly in arrears on each

Monthly Distribution Date, if and to the extent that funds are available on such Monthly Distribution Date in accordance with the Priority of Payments set forth in the Indenture and described herein. See “Description of the Notes—Interest”.

So long as any more Senior Class of Notes is outstanding, the failure on any Monthly Distribution Date to make payments in respect of interest on the Class C Notes, the Class D Notes, the Class E Notes or the Class F Notes by reason of the operation of the Priority of Payments will not constitute an Event of Default under the Indenture. Any interest on the Class C Notes, the Class D Notes, the Class E Notes or the Class F Notes that is not paid when due by operation of the Priority of Payments will not be considered “due and payable” and instead will be deferred (such interest being referred to herein as “Class C Deferred Interest”, “Class D Deferred Interest”, “Class E Deferred Interest” or “Class F Deferred Interest”, as applicable, and collectively as, “Deferred Interest”). Any Deferred Interest will not be added to the Aggregate Outstanding Amount of the related Class of Notes but interest will accrue on such Deferred Interest at the rate applicable to the related Class of Notes until such Deferred Interest is paid in full.

Additionally, if either (i) Fitch downgrades any Class of Notes or (ii) either Standard & Poor’s or Moody’s has provided written instruction that it will not confirm the ratings or the credit estimate assigned by it with respect to the rights of any Class of Notes to the Trustee, prior to the date 35 days after the delivery of the Ramp-Up Notice (a “Ratings Confirmation Failure”), then the Collateral Manager, on behalf of the Issuer expects to propose to the Rating Agencies, the Credit Default Swap Counterparty and the Class A-1 Noteholder its plan intended for meeting the Rating Agencies’ requirements to obtain a Ratings Confirmation; otherwise, after giving effect to the application of Excess Reserve Account Assets (if any), Interest Proceeds, then Principal Proceeds on the Monthly Distribution Date relating to the first Determination Date occurring thereafter will be applied, *first*, to permanently reduce the Remaining Unfunded Class A-1 Commitment Amount until the Remaining Unfunded Class A-1 Commitment Amount is reduced to zero by making a deposit into the Reserve Account and *second*, to redeem each Class of Notes (sequentially in direct order of Seniority), in each case, to the extent necessary (after the application of Excess Reserve Account Assets but prior to the application of Interest Proceeds then Principal Proceeds for such purpose) to obtain confirmation from each downgrading or non-confirming Rating Agency that it has restored (or will restore) the credit estimates or ratings (including private and confidential ratings) on such Class of Notes assigned by it to each such Class of Notes on the Closing Date (a “Ratings Confirmation”) (and, pending such Ratings Confirmation on such Monthly Distribution Date, each subsequent purchase of any Collateral Debt Security will be subject to the satisfaction of the Rating Condition).

Maturity; Average Life;

Duration:

The stated maturity of the Notes is March 10, 2052, or, if such date is not a Business Day, the next following Business Day (with respect to each Class of Notes, their respective “Stated Maturity” thereof). Each Class of Notes will mature at their respective Stated Maturity unless redeemed or repaid prior thereto. The average life of each Class of

Principal Repayment

of the Notes:

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

After the Reinvestment Period, Principal Proceeds will be applied as set forth under “Description of the Notes—Priority of Payments—Principal Proceeds”. The amount and frequency of principal and interest payments of a Class of Notes will depend upon, among other things, the amount and frequency of principal and interest received with respect to the Collateral Debt Securities (including the Reference Obligations under the Credit Default Swap Agreement) and any proceeds received in connection with the sale or other disposition of the Collateral Debt Securities.

Payments of principal may be made on the Notes during the Reinvestment Period only in the following circumstances: (a) in the event of a Ratings Confirmation Failure (to the extent a Proposed Plan cannot be agreed to by the Collateral Manager on behalf of the Issuer, the Rating Agencies, the Credit Default Swap Counterparty and the Class A-1 Noteholder), (b) in connection with a Tax Redemption, (c) if the Preference Shareholders have received at least the Target Return I on the relevant Quarterly Distribution Date, in which case a portion of the remaining Interest Proceeds will be applied to pay principal, *pro rata*, of the Class D Notes, the Class E Notes and the Class F Notes in accordance with paragraph (21) under the heading “Description of the Notes—Priority of Payments—Interest Proceeds” and (d) if the Collateral Manager directs the Trustee to apply Principal Proceeds to redeem Notes in accordance with paragraph (4) under the heading “Description of the Notes—Priority of Payments—Principal Proceeds”.

In addition, the Issuer may redeem the Notes, in whole but not in part, at the applicable Redemption Price therefor on or after the Distribution Date occurring in March 2010 under the circumstances described in “Description of the Notes—Optional Redemption and Tax Redemption”, “—Mandatory Redemption”, “—Auction Call Redemption”, “—Clean-Up Call Redemption” and “—Priority of Payments—Interest Proceeds”.

The Preference Shares:

The Preference Shares constitute part of the share capital of the Issuer and, as such, their entitlement on liquidation is limited to the assets of the Issuer remaining after payment of all of the liabilities of the Issuer that rank ahead of the Preference Shares pursuant to the Indenture, the Issuer Charter and applicable law. Accordingly, to the extent that the proceeds from the Collateral and other assets owned by the Issuer are not sufficient to pay dividends or make other distributions on the Preference Shares (after the payment of all obligations of the Issuers), the Issuer will have no obligation to pay any further amount in respect of the Preference Shares.

The Trustee will remit funds to the Preference Share Paying Agent subject to the Priority of Payments for payment on behalf of the Issuer to the Holders of the Preference Shares in respect of dividends and other distributions thereon subject to the provisions of the Preference Share Paying Agency Agreement. Dividends and other distributions on the Preference Shares will be payable on each Quarterly Distribution

Date occurring on or after the Ramp-Up Completion Date to the extent funds are available therefor in accordance with the Priority of Payments, beginning on the Quarterly Distribution Date occurring in June 2007 and continuing through (but excluding) the Distribution Date occurring in March 2052 (the “Scheduled Preference Shares Redemption Date”), or such earlier date on which the Preference Shares are redeemed, including in connection with an optional redemption (such date, the “Final Preference Shares Redemption Date”).

The Holders of the Preference Shares will not be entitled (whether at redemption or otherwise) to any return of capital and will receive payments only to the extent that dividends or other distributions on the Preference Shares are made in accordance with the Priority of Payments subject to the provisions of the Preference Share Paying Agency Agreement. If the Issuer does not have sufficient profits and/or share premium under Cayman Islands law to pay a dividend for which it has funds available in accordance with the Priority of Payments, no dividend will be paid until sufficient profits and/or share premium become available. Such amounts, however, will be released from the lien granted to the Noteholders and other Secured Parties under the Indenture and will not be available to make future payments of principal of and interest (or, in the case of the Class A-1 Notes, Commitment Fee) on the Notes, make payments to the Credit Default Swap Counterparty or Hedge Counterparties or to pay fees and expenses of the Co-Issuers.

Following the liquidation of the Collateral and the distribution of any available remaining funds following a redemption of the Notes or an Event of Default under the Indenture or otherwise (whether before, on or after the Scheduled Preference Shares Redemption Date), the Preference Shares, subject to Cayman Islands law, will be redeemed at a redemption price equal to all of amounts remaining, if any, after payment of senior amounts under the Priority of Payments, the return of U.S.\$250 of capital to the owner of the Issuer’s ordinary shares and the payment of a U.S.\$250 profit fee to the owner of the Issuer’s ordinary shares and interest thereon. The Preference Shares will be redeemed by the Issuer on the Final Preference Shares Redemption Date, whether or not any amounts are available to the Issuer for distribution to the Holders of the Preference Shares in connection with such redemption.

The Preference Shares will be sold at a discount from the liquidation preference. The sum of proceeds from the sale of the Preference Shares and a portion of the initial payment under the Closing Date Swap will be equal to the liquidation preference of the Preference Shares.

Mandatory Redemption:

Each Class of Notes will be subject to mandatory redemption in the event of a Ratings Confirmation Failure, as described under “Description of the Notes—Mandatory Redemption”. If a Proposed Plan cannot be agreed to by the Collateral Manager on behalf of the Issuer, the Rating Agencies, the Credit Default Swap Counterparty, and the Class A-1 Noteholder, the Issuer will be required to apply on the Monthly Distribution Date relating to the first Determination Date occurring thereafter *first*, Excess Reserve Account Assets, *second*, Interest Proceeds and *third*, Principal Proceeds to *first*, the reduction of the Remaining Unfunded Class A-1 Commitment Amount until the

Remaining Unfunded Class A-1 Commitment Amount is reduced to zero by making a deposit to the Reserve Account and *second*, the repayment of the Notes, sequentially in direct order of Seniority, in each case, in accordance with the Priority of Payments and as and to the extent necessary to obtain a Ratings Confirmation.

On any Distribution Date prior to the last day of the Reinvestment Period, the Collateral Manager may, if (i) the Collateral Manager (with the written consent of holders of a Majority-in-Interest of Preference Shares) determines that investments in additional Collateral Debt Securities in the near future would either be impractical or not beneficial to the Issuer or (ii) the Deferred Notes Principal is greater than zero, direct the Trustee to apply all or any portion of Principal Proceeds that would otherwise be available for reinvestment in Collateral Debt Securities pursuant to paragraph (4) under the heading “Description of the Notes—Priority of Payments—Principal Proceeds” to payment of the Notes in accordance with the Priority of Payments. See “Description of the Notes—Mandatory Redemption” and “—Priority of Payments—Principal Proceeds”.

In addition, as mentioned above, if on any Quarterly Distribution Date occurring prior to the end of the Reinvestment Period the Preference Shareholders have received an amount equal to the Target Return I in accordance with the Priority of Payments, then a portion of the remaining Interest Proceeds will be applied to pay principal, *pro rata*, of the Class D Notes, the Class E Notes and the Class F Notes in accordance with the Priority of Payments with respect to Interest Proceeds. See “Description of the Notes—Principal”, “—Mandatory Redemption” and “—Priority of Payments—Interest Proceeds”.

**Optional Redemption and
Tax Redemption of the**

Notes:.....

Subject to certain conditions described herein, on any Distribution Date occurring on or after the Distribution Date occurring in March 2010 the holders of more than 50% of the issued and outstanding Preference Shares (a “Majority-in-Interest of Preference Shares”) may direct the Issuer to redeem the Notes in whole but not in part, in each case at the applicable Redemption Price therefor.

See “Description of the Notes—Optional Redemption and Tax Redemption”.

In addition, upon the occurrence of a Tax Event, the Issuer may redeem the Notes, such redemption (a “Tax Redemption”), in whole but not in part (i) at the written direction of a Majority of any Class of Notes that, as a result of the occurrence of such Tax Event, has not received 100% of the aggregate amount of principal and interest payable to such Class on any Distribution Date (each, an “Affected Class”) or (ii) at the direction of a Majority-in-Interest of Preference Shares. Any such redemption may only be effected on a Distribution Date and only from (a) the Sale Proceeds of the Collateral and (b) all other funds in the Accounts (other than in any Hedge Counterparty Collateral Account, any Asset Hedge Account, any Synthetic Security Counterparty Account and any Issuer Collateral Account) on the relevant Distribution Date, at the applicable Redemption Price. No Tax Redemption or Optional Redemption may be effected, however, unless (i) all Sale Proceeds under clause (a) above are used to make such a

Tax Redemption, (ii) funds under clauses (a) and (b) are sufficient to pay the Total Redemption Amount and (iii) the Tax Materiality Condition is satisfied. See “Description of the Notes—Optional Redemption and Tax Redemption”.

In connection with any Tax Redemption, Holders of at least 66-2/3% of the Aggregate Outstanding Amount of Notes (with respect to a Class of Notes of an Affected Class), as the case may be, may elect to receive less than 100% of the Redemption Price that would otherwise be payable to them (and the minimum Sale Proceeds requirements will be reduced accordingly).

For purposes of the foregoing, “Accounts” means any of the Interest Collection Account, the Principal Collection Account, each Issuer Collateral Account, each Synthetic Security Counterparty Account, the Payment Account, the Expense Account, the Custodial Account, the Reserve Account, each Hedge Counterparty Collateral Account, the Interest Equalization Account, the Interest Reserve Account, the Closing Date Expense Reserve Account, each Asset Hedge Account and any subaccount thereof that the Trustee deems necessary or appropriate.

Auction Call Redemption:

An auction call redemption (an “Auction Call Redemption”) may be conducted by the Trustee on behalf of the Issuer on Distribution Dates falling on or after the Distribution Date in March 2015 (the “First Auction Call Date”). Commencing with the First Auction Call Date, no Auction Call Redemption may occur unless the proceeds from the Auction are sufficient to pay the Auction Call Redemption Amount plus for any Auction Call Redemption occurring (i) on or prior to the Distribution Date occurring in March 2017, an internal rate of return on the proceeds of issuance of the Preferences Shares of at least 8% (taking into account any prior distributions paid to the Preference Shareholders) and (ii) after the Distribution Date occurring in March 2017 and on or prior to the Distribution Date occurring in March 2019, an internal rate of return on the proceeds of issuance of the Preference Shares of at least 4% (taking into account any prior distributions paid to the Preference Shareholders). In addition, if the Notes have not been (or will not be) redeemed in full on or prior to the Distribution Date occurring in March 2015, then an auction of the Collateral Debt Securities will be conducted by the Trustee on behalf of the Issuer and the Issuer will request the Credit Default Swap Counterparty and each other Synthetic Security Counterparty to determine the termination payment that will be due to it or the Issuer if the CDS Agreement Transactions and Synthetic Securities are terminated and, provided that certain conditions are satisfied, the Collateral Debt Securities will be sold and the Notes will be redeemed. If such conditions are not satisfied and the auction is not successfully conducted, the Trustee will conduct auctions on a monthly basis until the Notes are redeemed in full. See “Description of the Notes—Auction Call Redemption”.

Clean-Up Call Redemption:

The Notes may be redeemed by the Issuer at the direction of the Collateral Manager, in whole, but not in part (a “Clean-Up Call Redemption”); provided that the Net Outstanding Portfolio Collateral Balance (without giving effect to clauses (a) through (i) of the definition of Principal Balance) as of the day of such redemption (prior to giving effect to such redemption) is less than (or equal to) 10% of

	the Required Ramp-Up Amount. See “Description of the Notes—Clean-Up Call Redemption”.
Security for the Notes:	Pursuant to the Indenture, the Notes, together with the Issuer’s obligations to the Collateral Manager, the Trustee, the Preference Share Paying Agent, the Credit Default Swap Counterparty, the Class A-1 Note Agent, the Closing Date Swap Counterparty, the Hedge Counterparties and any Synthetic Security Counterparty (but only to the extent of assets credited to a sub-account of the Synthetic Security Counterparty Account pursuant to the terms of the related Synthetic Security), will be secured by: (i) the Collateral Debt Securities and Equity Securities; (ii) the rights of the Issuer under the Hedge Agreements; (iii) the Payment Account, the Interest Collection Account, the Principal Collection Account, the Interest Equalization Account, the Expense Account, the Interest Reserve Account, the Reserve Account, the Closing Date Expense Reserve Account, the Custodial Account, any Issuer Collateral Account, any Asset Hedge Account and each Hedge Counterparty Collateral Account and Reserve Account Investments, Eligible Investments and U.S. Agency Securities purchased with funds on deposit in such accounts; (iv) the Issuer’s right to any investment income in any Synthetic Security Counterparty Account or Asset Hedge Account; (v) the rights of the Issuer under the Preference Share Paying Agency Agreement, the Collateral Management Agreement, the Credit Default Swap Agreement, the Class A-1 Note Purchase Agreement, the Collateral Administration Agreement, the Securities Purchase Agreement and the Subscription Agreements; (vi) all cash delivered to the Trustee; and (vii) all proceeds of the foregoing (collectively, the “ <u>Collateral</u> ”). In the event of any realization on the Collateral, proceeds will be allocated to the payment of each Class of Notes in accordance with the respective priorities established by the Priority of Payments.
Ramp-Up Completion Date:	The date that is the earlier of (a) the Distribution Date occurring in June 2007 and (b) the first day on which the aggregate par amount of the Collateral Debt Securities and aggregate Notional Amount of Synthetic Securities (whether through CDS Agreement Transactions or otherwise) held or committed to be purchased by the Issuer plus any Principal Proceeds received in respect of any such Collateral Debt Securities plus the Excess Notional Amount Liquidity, if any, is at least equal to U.S.\$1,100,000,000 (the “ <u>Required Ramp Up Amount</u> ”) within 35 days after the Ramp Up Completion Date occurs.
Reinvestment Period:	The period from the Closing Date and ending on and including the first to occur of (i) the Distribution Date immediately following the date that the Collateral Manager (with the written consent of a Majority-in-Interest of Preference Shares) notifies the Trustee, the Credit Default Swap Counterparty, the Class A-1 Noteholder and each Hedge Counterparty that, in light of the composition of Collateral Debt Securities, general market conditions and other factors (including any change in U.S. federal tax law requiring tax to be withheld on payments to the Issuer with respect to obligations or securities held by the Issuer), the Collateral Manager (in its sole discretion) has determined that investments in additional Collateral Debt Securities within the foreseeable future would either be impractical or not beneficial to the Issuer and the Reinvestment Period should end; (ii) the Distribution Date occurring in March 2012, (iii) the occurrence of an Event of

Default or (iv) the AAA/Aaa Coverage Ratio is less than 112% as of any Determination Date; *provided* that, if the Collateral Manager had previously terminated the Reinvestment Period pursuant to clause (i) above, the Collateral Manager may (in its sole discretion) reinstate the Reinvestment Period if such notice of reinstatement is delivered prior to the Determination Date related to the Distribution Date occurring in March 2012.

Acquisitions and

Dispositions of Collateral:

On the Closing Date, the Issuer will have purchased (or entered into agreements to purchase for settlement following the Closing Date) Collateral Debt Securities having an Aggregate Principal Balance of not less than 95% of the Required Ramp-Up Amount. The Issuer expects that, no later than the Distribution Date occurring in June 2007, it will (a) have purchased or committed to purchase an aggregate par amount of Collateral Debt Securities, (b) have obtained exposure to an aggregate notional amount of Synthetic Securities (whether pursuant to CDS Agreement Transactions or otherwise), (c) have an aggregate amount standing to the credit of the Principal Collection Account and (d) have an Excess Notional Amount Liquidity, all in an aggregate amount at least equal to the Required Ramp-Up Amount.

The Collateral Debt Securities purchased by the Issuer will, on the date of purchase, have the characteristics and satisfy the criteria set forth herein under “Security for the Notes—Collateral Debt Securities” and “—Investment Criteria”. Although the Issuer expects that the Collateral Debt Securities purchased by it will, on the Distribution Date occurring in June 2007, 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 following the Closing Date may result in the repayment or redemption of a portion of the Notes (according to the priority specified in the Priority of Payments). See “Description of the Notes—Mandatory Redemption”.

No investment will be made in Collateral Debt Securities, and no additional CDS Agreement Transactions or other Synthetic Securities will be entered into by the Issuer, after the termination of the Reinvestment Period. Unless terminated earlier as described herein under “Description of the Notes—Certain Definitions”, the Reinvestment Period will terminate on the Distribution Date occurring in March 2012.

Liquidation of

Collateral Debt Securities:

On the Stated Maturity of the Notes and Scheduled Preference Shares Redemption Date, or in connection with any Optional Redemption, Tax Redemption, Auction Call Redemption or Clean-Up Call Redemption, the Collateral Debt Securities, Reserve Account Investments, Eligible Investments and other Collateral will be liquidated and the Synthetic Securities, including the CDS Agreement Transactions, will be terminated. All net proceeds from such liquidation and all available cash will be applied to the payment (in the order of priorities set forth under “Description of the Notes—Priority of Payments”) of all (i) fees, (ii) expenses (including the amounts due to the Closing Date Swap Counterparty, any Hedge Counterparty or the Credit Default Swap Counterparty) and (iii) principal of and interest (including, in the case of the Class A-1 Notes, Commitment Fees), Defaulted Interest, interest

on Defaulted Interest and any Deferred Interest and any interest thereon) on the Notes. Net proceeds from such liquidation and available cash remaining after all payments required pursuant to the Indenture and the payment of the costs and expenses of such liquidation, the establishment of adequate reserves to meet all contingent, unliquidated liabilities or obligations of the Issuer, the return of U.S.\$250 of capital to the owner of the Issuer's ordinary shares and the payment of a U.S.\$250 profit fee to the owner of the Issuer's ordinary shares and interest thereon will be distributed to the Preference Share Paying Agent for distribution to the Preference Shareholders in accordance with the Preference Share Paying Agency Agreement. Notwithstanding anything herein to the contrary, if a Redemption Date falls on a Monthly Distribution Date that is not a Quarterly Distribution Date, Preference Shareholders will receive proceeds in respect of such redemption on such Redemption Date as if such date were a Quarterly Distribution Date.

The Credit Default Swap

Agreement:.....

On or prior to the Closing Date, the Issuer will enter into an ISDA Master Agreement of a type described below (together with the schedule thereto and any confirmations thereunder, the "Initial Credit Default Swap Agreement") with CALYON (in such capacity, the "Initial Credit Default Swap Counterparty"), for the purpose of entering into Synthetic Securities transactions in the form of credit default swap transactions (each, together with any other credit default swap transactions entered into with any other Credit Default Swap Counterparty under any Credit Default Swap Agreement, a "CDS Agreement Transaction") under which the Issuer will as seller of protection acquire synthetic exposure to the related Reference Obligations. As of the date hereof, the short-term unsecured and unguaranteed debt obligations of the Initial Credit Default Swap Counterparty are currently rated "A-1+" by Standard & Poor's, "P-1" by Moody's and "F1+" by Fitch. As of the date hereof, the long-term, unsecured, unsubordinated and unguaranteed debt obligations of the Initial Credit Default Swap Counterparty are currently rated "AA-" by Standard & Poor's, "Aa2" by Moody's and "AA" by Fitch.

Each CDS Agreement Transaction will be entered into under a separate trade confirmation in the form attached to a Master Confirmation and constitute a separate transaction under the Credit Default Swap Agreement.

It is currently expected that the aggregate Notional Amount of CDS Agreement Transactions will be approximately equal to U.S.\$928,000,000 as of the Closing Date. All of the CDS Agreement Transactions will be subject to the Collateral Quality Tests and the Investment Criteria to the extent described herein.

As of the Closing Date, the Issuer will enter into CDS Agreement Transactions for which the underlying Reference Obligations will be either RMBS Securities or CMBS Securities and will be documented by a Form-Approved Synthetic Security that is substantially in the form of the "Credit Derivative Transaction on Mortgage-Backed Security With Pay-As-You-Go or Physical Settlement (Form I) (Dealer Form)" or "Credit Derivative Transaction on Asset-Backed Security With Pay-As-You-Go or Physical Settlement (Form 1) (Dealer Form)", in

each case using the template confirmation most recently published by ISDA prior to the Closing Date, with the elections described under “The Credit Default Swap” below. In addition, the Issuer will have the ability to enter into CDS Agreement Transactions for which the underlying Reference Obligations are RMBS Securities, CMBS Securities, CDO Securities, REIT Debt Securities, other Asset-Backed Securities, an ABX Index or Tranching ABX Index and will be documented on appropriate forms that are approved by the Rating Agencies (each such form, a “Form-Approved Synthetic Security”).

The Credit Events applicable to CDS Agreement Transactions for which the underlying Reference Obligations are either RMBS Securities or CMBS Securities are: Failure to Pay Principal, Writedown and Distressed Ratings Downgrade. As well as the Credit Events that trigger physical settlement, the Form-Approved Synthetic Security requires the protection seller to pay floating amounts to the protection buyer in amounts equal to any writedowns, principal shortfalls and interest shortfalls upon the occurrence thereof (any such payment, a “Credit Protection Payment”). The protection buyer will be required to reimburse all or part of such floating amounts to the protection seller if they are ultimately paid by the Reference Obligor to holders of the Reference Obligation, within one year after termination of the applicable CDS Agreement Transaction. A Writedown or a Failure to Pay Principal in respect of a Reference Obligation will entitle the protection buyer to elect whether to deliver a Credit Event Notice or require a Credit Protection Payment under the related CDS Agreement Transaction. With respect to each CDS Agreement Transaction (other than with respect to CDS Agreement Transactions for which the underlying Reference Obligations are REIT Debt Securities), the parties to the Credit Default Swap will elect to cap the interest shortfall risk being transferred to the protection seller by limiting amounts to be paid by the protection seller to the protection buyer to the amount of premium payable by the protection buyer under the Synthetic Security on the first premium payment date immediately following the Reference Obligation payment date on which the relevant interest shortfall occurred. An intermediation fee will be subtracted from the premium payable by the Credit Default Swap Counterparty to the Issuer. See “The Credit Default Swap Agreement”. The Issuer will be obligated to pay the Credit Default Swap Counterparty irrespective of whether the Credit Default Swap Counterparty suffers a loss on a Reference Obligation upon the occurrence of a Credit Event. The Issuer will have no rights of subrogation under the CDS Agreement Transactions.

After the Closing Date, the Issuer may from time to time enter into additional credit default swap agreements (such credit default swap agreements together with the Initial Credit Default Swap Agreement are collectively described in this Offering Memorandum as the “Credit Default Swap Agreement”) with one or more credit default swap counterparties (such credit default swap counterparties together with the Initial Credit Default Swap Counterparty are collectively referred to in this Offering Memorandum as the “Credit Default Swap Counterparty”), in each case upon satisfaction of the Rating Condition.

The Offering:

The Offered Securities are being offered only (a) in the United States in reliance upon an exemption from the registration requirements of the

Securities Act to “Qualified Institutional Buyers” (as defined in Rule 144A under the Securities Act) or, with respect to the Class E Notes and the Preference Shares only, Institutional Accredited Investors purchasing pursuant to an exemption from the registration requirements of the Securities Act, that are also Qualified Purchasers and (b) outside the United States in compliance with Regulation S (“Regulation S”) under the Securities Act to persons who are not U.S. Persons (as defined in Regulation S). A “Qualified Purchaser” means a “qualified purchaser” as defined in Section 2(a)(51)(A) of the Investment Company Act. Each Original Purchaser of a Note (other than Class E Notes purchased by Institutional Accredited Investors) and Original Purchaser of a Preference Share that is not a U.S. Person purchasing pursuant to an offshore transaction under Regulations S will be deemed, and each Original Purchaser of a Preference Share or a Class E Note, that is an Institutional Accredited Investor that is not a Qualified Institutional Buyer, that is a U.S. Person or is purchasing pursuant to a transaction in the United States will be required in a subscription agreement (a “Subscription Agreement”), to make certain acknowledgments, representations and agreements. See “Transfer Restrictions”.

Ratings:

It is a condition to the issuance of the Securities that the Class A-1 Notes be rated “AAA” by Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc. (“Standard & Poor’s”), “Aaa” by Moody’s Investors Service, Inc. (“Moody’s”) and “AAA” by Fitch, Inc. (“Fitch”, and together with Standard & Poor’s and Moody’s, the “Rating Agencies”), that the Class A-2 Notes be rated “AAA” by Standard & Poor’s, “Aaa” by Moody’s and “AAA” by Fitch, that the Class B Notes be rated at least “AA” by Standard & Poor’s, at least “Aa2” by Moody’s and at least “AA” by Fitch, that the Class C Notes be rated at least “A” by Standard & Poor’s, at least “A2” by Moody’s and at least “A” by Fitch, that the Class D Notes be rated at least “BBB” by Standard & Poor’s, at least “Baa2” by Moody’s and at least “BBB” by Fitch, that the Class E Notes be rated at least “BBB-” by Standard & Poor’s, at least “Baa3” by Moody’s and at least “BBB-” by Fitch and that the Class F Notes be rated at least “BBB-” by Standard & Poor’s, at least “Baa3” by Moody’s and at least “BBB-” by Fitch. The Standard & Poor’s ratings of the Class A Notes and Class B Notes address the likelihood of the timely payment of interest and ultimate payment of principal by the Stated Maturity. The Standard & Poor’s ratings of the Class C Notes, Class D Notes, Class E Notes and Class F Notes address the likelihood of the ultimate payment of principal of and interest thereon. The Moody’s rating of the Notes addresses the ultimate cash receipt of all required interest and principal payments as provided in the governing documents. The ratings assigned to the Notes by Fitch are based upon its assessment of the probability that the Collateral Debt Securities will provide sufficient funds to repay the principal amount of and interest in respect of the Notes, based largely upon Fitch’s statistical analysis of the Collateral Debt Securities. See “Ratings.”

Minimum Denominations:

The Notes will be issuable in a minimum denomination of U.S.\$500,000 and will be offered only in such minimum denomination and integral multiples of U.S.\$1,000 in excess thereof. The Preference Shares will be issued in minimum lots of 100 shares and increments of one share in excess thereof. After issuance, a Note may fail to be in

compliance with the minimum denomination requirement stated above as a result of the repayment of principal thereof in accordance with the Priority of Payments.

Form of the Securities: Notes offered hereunder that are sold or transferred outside the United States to persons that are not U.S. Persons will be represented by one or more permanent global notes (each a “Regulation S Global Note”) and Preference Shares that are sold or transferred outside the United States to persons that are not U.S. Persons will be represented by one or more permanent global notes (each a “Regulation S Global Preference Share”) and, collectively with the Regulation S Global Notes, the “Regulation S Global Securities”) 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. Notes that are sold or transferred to a U.S. Person or in the United States in reliance upon Rule 144A of the Securities Act (“Rule 144A”) will be represented by one or more permanent global notes (“Restricted Global Notes” and, collectively with the Regulation S Global Securities, the “Global Securities”) in definitive, fully registered form, without interest coupons, and deposited with the Trustee as custodian for, and registered in the name of DTC or its nominee. Class E Notes and Class F Notes that are sold or transferred to Institutional Accredited Investors pursuant to an exemption from the registration requirements of the Securities Act, will be represented by certificates (“Restricted Definitive Notes”, as applicable) in definitive, fully registered form, registered in the name of the legal and beneficial owner thereof. Preference Shares that are sold or transferred to a U.S. Person or in the United States in reliance upon Rule 144A or, to Institutional Accredited Investors pursuant to a separate exemption from the registration requirements of the Securities Act, will be represented by certificates (“Restricted Preference Shares” and, collectively with the Restricted Global Notes, “Restricted Securities”) in definitive, fully registered form, registered in the name of the legal and beneficial owner thereof.

Listing: There is currently no market for the Securities and there can be no assurance that such a market will develop. See “Risk Factors—Securities—Limited Liquidity and Restrictions on Transfer.” Application will be made to list the Securities on the Cayman Islands Stock Exchange (the “Cayman Stock Exchange”). The issuance and settlement of the Offered Securities on the Closing Date are not conditioned on the listing of any Class of Securities on the Cayman Stock Exchange. No assurance can be given that following the Closing Date the listing of the Securities on the Cayman Stock Exchange will be obtained or, if it is obtained, will be maintained for the entire period that the Securities are outstanding. See “Listing and General Information.”

Governing Law: The Notes, the Indenture, the Subscription Agreements, the Collateral Management Agreement, each Hedge Agreement, the Collateral Administration Agreement, the Preference Share Paying Agency Agreement, the Credit Default Swap Agreement, the Class A-1 Note Purchase Agreement, the Closing Date Swap Agreement and the Securities Purchase Agreement will be governed by, and construed in accordance with, the law of the State of New York. The Issuer Charter

and the Preference Shares will be governed by, and construed in accordance with, the law of the Cayman Islands.

Tax Matters: See “Income Tax Considerations”.

Benefit Plan Investors: See “Certain ERISA Considerations”.

RISK FACTORS

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

Limited Liquidity and Restrictions on Transfer. There is currently no market for the Offered Securities. Although either Initial Purchaser may from time to time make a market in any Class of Notes or the Preference Shares, as the case may be, none of the Initial Purchasers is under any obligation to do so. In the event that either Initial Purchaser commences any market-making, it may discontinue the same at any time without notice. There can be no assurance that a secondary market for any of the Offered Securities will develop, or if a secondary market does develop, that it will provide the holders of such Securities with liquidity of investment or that it will continue for the life of the Offered Securities. Consequently, an investor in the Offered Securities must be prepared to hold its Offered Securities for an indefinite period of time or until the Stated Maturity of the Notes or the Scheduled Preference Shares Redemption Date, as applicable. In addition, no sale, assignment, participation, pledge or transfer of the Offered Securities may be effected if, among other things, it would require any of the Issuer, the Co-Issuer or any of their officers or directors to register under, or otherwise be subject to the provisions of, the Investment Company Act or any other similar legislation or regulatory action. Furthermore, the Offered Securities will not be registered under the Securities Act or any state securities laws or the laws of any other jurisdiction, and the Issuer has no plans, and is under no obligation, to register the Offered Securities under the Securities Act or under the laws of any other jurisdiction. The Offered Securities are subject to certain transfer restrictions and can only be transferred to certain transferees as described under “Transfer Restrictions”. Such restrictions on the transfer of the Offered Securities may further limit their liquidity. Application will be made to list the Securities on the Cayman Stock Exchange. There can be no assurance that any such listing will be obtained or, if obtained, will be maintained for the entire period that the Securities are outstanding. See “Listing and General Information.”

Limited-Recourse Obligations; Limited Source of Funds. The Notes are joint and several limited-recourse debt obligations of the Co-Issuers, payable solely from the Collateral Debt Securities, Reserve Account Investments, Eligible Investments and other Collateral pledged by the Issuer. The Preference Shares represent an equity interest in the Issuer and will not benefit from the security interest in the Collateral pledged to secure the Noteholders and the other Secured Parties. The Notes are payable solely from the Collateral Debt Securities and other Collateral pledged by the Issuer to secure the Notes. Amounts available to the Trustee for the making of scheduled payments on the Notes and Preference Shares are payable solely from the Collateral Debt Securities, Reserve Account Investments, Eligible Investments and other Collateral pledged by the Issuer to secure the Notes in accordance with the Priority of Payments. None of the security holders, members, officers, directors, managers or incorporators of the Issuer, the Co-Issuer, the Trustee, the Administrator, either Rating Agency, the Share Trustee, the Collateral Manager, the Hedge Counterparties, the Credit Default Swap Counterparty, the Class A-1 Noteholder, the Initial Purchasers, any of their respective Affiliates and any other person or entity will be obligated to make payments on the Notes or Preference Shares. Consequently, the Noteholders and Preference Shareholders must rely solely on amounts received in respect of the Collateral Debt Securities, Reserve Account Investments, Eligible Investments and other Collateral pledged to secure the Notes for the payment of principal thereof and interest thereon and for payment of dividends and other distributions on the Preference Shares. There can be no assurance that the distributions on the Collateral Debt Securities, Reserve Account Investments, Eligible Investments and other Collateral pledged by the Issuer to secure the Notes will be sufficient to make payments on any Class of Notes, in particular after making payments on more Senior Classes of Notes and certain other required amounts ranking Senior to such Class (including payments to the Hedge Counterparty under the Hedge Agreement and certain termination payments under the Credit Default Swap Agreement) or to make any payment to Preference Shareholders. The Issuer’s ability to make payments in respect of any Class of Notes or Preference Shares will be constrained by the terms of the Notes of Classes more Senior to such Class or Preference Shares, the Credit Default Swap Agreement, the Hedge Agreement, the Class A-1 Note Purchase Agreement, the Closing Date Swap Agreement and the Indenture. If distributions on the Collateral are insufficient to make payments on the Notes or Preference Shares, no other assets will be available for payment of the deficiency with respect to the Notes or to make any payment to Preference Shareholders and, following liquidation of all the Collateral, the obligations of the Co-Issuers to pay such deficiencies or to make any payment to Preference Shareholders with respect to the Notes will be extinguished and will not thereafter revive. Other than amounts the Co-Issuers may be entitled to receive pursuant to certain limited

indemnities, amounts received in respect of the Collateral Debt Securities and other Collateral pledged to secure the Notes are the only source for payments of the expenses of the Co-Issuers, including any expenses incurred by the Co-Issuers in connection with any litigation. Amounts received in respect of the Collateral will be the only source for payment of the Issuer's obligations under the Credit Default Swap Agreement and any Hedge Agreement.

Subordination of Notes. Payments of principal of and interest on the Notes (and the payment of the Commitment Fee) are subordinated to payment of (i) amounts payable pursuant to the Hedge Agreement, (ii) amounts payable pursuant to the Closing Date Swap Agreement, (iii) certain termination payments under the Credit Default Swap Agreement and (iv) certain other expenses of the Issuer. No payment of interest on and, except for the payments described in the following sentence, no payments of principal of 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. After the end of the Reinvestment Period, Principal Proceeds will be applied on each Monthly Distribution Date to the payment of the Notes in accordance with the Priority of Payments. See "Description of the Notes—Priority of Payments".

If an Event of Default occurs, the Controlling Class of Notes will be entitled to determine the remedies to be exercised under the Indenture. So long as any Senior Class of Notes are outstanding, the failure on any Monthly Distribution Date to make payments in respect of interest on the Class C Notes or any Subordinate Class of Notes by reason of the operation of the Priority of Payments will not constitute an Event of Default under the Indenture. Any interest on the Class C Notes that is not paid when due by operation of the Priority of Payments will be deferred and will accrue interest. So long as any Senior Class of Notes are outstanding, the failure on any Monthly Distribution Date to make payment in respect of interest on the Class D Notes by reason of the operation of the Priority of Payments will not constitute an Event of Default under the Indenture. Any interest on the Class D Notes that is not paid when due by operation of the Priority of Payments will be deferred and will accrue interest. So long as any Senior Class of Notes are outstanding, the failure on any Monthly Distribution Date to make payment in respect of interest on the Class E Notes by reason of the operation of the Priority of Payments will not constitute an Event of Default under the Indenture. Any interest on the Class E Notes that is not paid when due by operation of the Priority of Payments will be deferred and will accrue interest. So long as any Senior Class of Notes are outstanding, the failure on any Monthly Distribution Date to make payment in respect of interest on the Class F Notes by reason of the operation of the Priority of Payments will not constitute an Event of Default under the Indenture. Any interest on the Class F Notes that is not paid when due by operation of the Priority of Payments will be deferred and will accrue interest. In the event of any realization on the Collateral, proceeds will be allocated to the Notes and to payment of other amounts in accordance with the Priority of Payments prior to any distributions to the Preference Shareholders. See "Description of the Notes—The Indenture" and "—Priority of Payments". Remedies pursued by the holders of the Class or Classes of Notes entitled to determine the exercise of such remedies could be adverse to the interests of the holders of the other Classes of Notes and to the holders of the Preference Shares. To the extent that any losses are suffered by any of the holders of any Offered Securities, such losses will be borne, *first*, by the holders of the most Subordinate Class of Securities.

Payments in Respect of the Preference Shares. There can be no assurance that after payment of principal of and interest (and, in the case of the Class A-1 Notes, the Commitment Fee) on the Notes and other fees and expenses of the Co-Issuers due and payable in accordance with the Priority of Payments, the Issuer will have funds remaining to make distributions in respect of the Preference Shares. In addition, the Collateral Manager may, if it reasonably determines that such deposit is necessary to equalize monthly interest cash flows, direct the Trustee to deposit distributions received on any Floating Rate Collateral Debt Security then bearing interest at a floating rate during any Due Period into the Interest Equalization Account which will reduce the amounts available for distribution on the next succeeding Quarterly Distribution Date to Preference Shareholders. There can be no assurance that the Issuer will have sufficient funds to make distributions in respect of the Preference Shares in an amount equal to the aggregate liquidation preference of the Preference Shares. The failure to make distributions in respect of the Preference Shares in an amount equal to the aggregate liquidation preference of the Preference Shares on or prior to the Final Preference Shares Redemption Date will not be an Event of Default. The rights of the Preference Shareholders to receive payments will rank behind the rights of the Credit Default Swap Counterparty, the holders of the Notes, any Hedge Counterparties and other creditors of the Issuer. The Issuer, pursuant to the Indenture, has pledged substantially all of its assets to secure its obligations under or pursuant to the Notes and certain other obligations of the Issuer. The proceeds of such assets will only be available to make payments in respect of the Preference Shares as and when such proceeds are released from the lien of the Indenture in accordance with the

Priority of Payments and subject to the provisions of the Preference Share Paying Agency Agreement. See “Description of the Notes—Priority of Payments.” Cayman Islands law provides that dividends on the Preference Shares may only be paid by the Issuer if the Issuer has funds lawfully available for such purpose. Dividends may be paid out of profit and out of the Issuer’s share premium account (which includes subscription monies in excess of the par value of each share less any subscription, placement or underwriting fees); *provided* that the Issuer is and will remain solvent (which term will, when used in this context throughout this document, means able to pay its debts as and when they fall due and in the ordinary course of business) immediately following the date of such payment. Any amounts that are released from the lien of the Indenture for distribution to the Preference Shareholders in accordance with the Priority of Payments on any Distribution Date will not be available to make payments in respect of the Notes on any subsequent Distribution Date.

Any amounts paid by the Preference Share Paying Agent as dividends or other distributions on the Preference Shares in accordance with the Priority of Payments will be payable only to the extent of the Issuer’s distributable profits and/or share premium (determined in accordance with Cayman Islands law). In addition, such distributions will be payable only to the extent that the Issuer is solvent on the applicable Distribution Date and the Issuer will not be insolvent on such Distribution Date after such distributions are paid. Under Cayman Islands law, a company is generally deemed to be solvent if it is able to pay its debts as they fall due.

To the extent the requirements under Cayman Islands law described in the preceding paragraph are not met, amounts otherwise payable to the Holders of the Preference Shares will be retained by the Issuer until, in the case of any payments by way of dividend, the next succeeding Quarterly Distribution Date or (in the case of any payment which would otherwise be payable on a redemption date of the Preference Shares) the next succeeding Business Day on which the Issuer notifies the Preference Share Paying Agent that such requirements are met and, in the case of any payments by way of redemption of the Preference Share, the next succeeding Business Day on which the Issuer notifies the Preference Share Paying Agent that such requirements are met. Amounts so retained by the Issuer for payment to holders of the Preference Shares will not be available to pay amounts due to the Holders of the Notes, the Trustee, the Credit Default Swap Counterparty, the Hedge Counterparties or any other creditor of the Issuer whose claim is limited in recourse to the Collateral. However, such amounts may be subject to the claims of creditors of the Issuer that have not contractually limited their recourse to the Collateral. The Issuer does not expect to have any significant full recourse liabilities that would be payable out of any such amounts. The Indenture will limit the Issuer’s activities to those described in “The Co-Issuers – General”.

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

Subordination of Collateral Debt Securities. It is expected that a significant portion of the Collateral Debt Securities will generally be subordinated to one or more other classes of securities of the same series for purposes of, among other things, offsetting losses and other shortfalls with respect to the related underlying assets. In addition, in the case of certain Asset-Backed Securities, no distributions of principal will generally be made with respect to any class until the aggregate principal balances of the more senior classes of securities have been reduced to zero. As a result, the subordinate classes are more sensitive to risk of loss and write-downs than senior classes.

Payments to Specified Secured Parties Not Subject to the Priority of Payments. Each Synthetic Security Counterparty Account and Issuer Collateral Account will be held in the name of the Trustee in trust solely for the benefit of the related Synthetic Security Counterparty (or the Credit Default Swap Counterparty, as applicable), and all deposits into, and payments made out of, a Synthetic Security Counterparty Account will be made without regard to the Priority of Payments or the occurrence of any Event of Default. See “Security for the Notes—The Accounts—Synthetic Security Counterparty Accounts”.

Ramp-Up Period Purchases; Reinvestments. The amount of Collateral Debt Securities purchased (or, in the case of Synthetic Securities including CDS Agreement Transactions, entered into) by the Issuer on the Closing Date and

the amount and timing of the purchase of (or, in the case of Synthetic Securities including CDS Agreement Transactions, entry into) additional Collateral Debt Securities prior to the Ramp-Up Completion Date, and the subsequent reinvestment of Principal Proceeds (including cash and Reserve Account Investments liquidated and transferred to the Principal Collection Account as permitted by the Indenture) 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 Offered Securities. Reduced liquidity and lower volumes of trading in certain Collateral Debt Securities, in addition to restrictions on investment contained in the Investment 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 Reserve Account Investments and Eligible Investments. Because of the short term nature and credit quality of Reserve Account Investments and Eligible Investments, the interest rates payable on Reserve Account Investments and 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 Offered Securities and all Principal Proceeds were immediately invested and remained invested at all times. If the Issuer does not enter into additional CDS Agreement Transactions promptly after the Notional Amount of the existing CDS Agreement Transactions is reduced by principal amortization, the Interest Proceeds received by the Issuer will be reduced but the Commitment Amount payable by the Issuer to the Class A-1 Noteholder will not be reduced during the Reinvestment Period (unless the Collateral Manager elects to make a permanent reduction of the Remaining Unfunded Class A-1 Commitment Amount). The associated reinvestment risk on the Collateral Debt Securities will first be borne by holders of the Preference Shares and then by the holders of the Notes in the reverse order of Seniority.

In addition, the timing of the purchase of Collateral Debt Securities prior to the Ramp-Up Completion Date, the amount of any purchased accrued interest, the scheduled interest payment dates of the Collateral Debt Securities and the amount of the net proceeds associated with the offering of the Offered Securities invested in the lower-yielding Reserve Account Investments and Eligible Investments until reinvested in Collateral Debt Securities, may have a material impact on the amount of Interest Proceeds collected, which could adversely affect interest payments on Notes and distributions on Preference Shares.

Insolvency Considerations with Respect to Issuers of Collateral Debt Securities. Various laws enacted for the protection of creditors may apply to the Collateral Debt Securities issued by U.S. issuers (each, a “U.S. Collateral Debt Security”). The Collateral Debt Securities consisting of obligations of non-U.S. issuers may be subject to various laws enacted in the home countries of their issuance for the protection of creditors. These insolvency considerations will differ depending on the country in which each issuer is located and may differ depending on whether the issuer is a non-sovereign or a sovereign entity.

If a court in which a lawsuit is brought by an unpaid creditor or representative of creditors of an issuer of a U.S. Collateral Debt Security, such as a trustee in bankruptcy, were to find the issuer 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 issuer (i) was insolvent, (ii) was engaged in a business for which the remaining assets of such issuer constituted unreasonably small capital or (iii) intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature, such court could determine to invalidate, in whole or in part, such indebtedness as a fraudulent conveyance, to subordinate such indebtedness to existing or future creditors of the issuer or to recover amounts previously paid by the issuer in satisfaction of such indebtedness. The measure of insolvency for purposes of the foregoing will vary. Generally, an issuer would be considered insolvent at a particular time if the sum of its debts were greater than all of its property at a fair valuation or if the present fair saleable value of its assets were 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 issuer was “insolvent” after giving effect to the incurrence of the indebtedness constituting the U.S. Collateral Debt Security or that, regardless of the method of valuation, a court would not determine that the issuer was “insolvent” upon giving effect to such incurrence. In addition, in the event of the insolvency of an issuer of a U.S. Collateral Debt Security, payments made on such U.S. 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 U.S. Collateral Debt Security are voidable, 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 Notes). 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 the Preference Shares, then by the holders of the Notes in the reverse order of priority. However, a court in a bankruptcy or insolvency proceeding would be able to direct the recapture of any such payment from a Noteholder only to the extent that such court has jurisdiction over such holder or its assets.

Lender Liability Considerations; Equitable Subordination. In recent years, a number of judicial decisions in the United States have upheld the right of borrowers to sue lenders or bondholders on the basis of various evolving legal theories (collectively, termed “lender liability”). Generally, lender liability is founded upon the premise that an institutional lender or bondholder has violated a duty (whether implied or contractual) of good faith and fair dealing owed to the borrower or issuer or has assumed a degree of control over the borrower or issuer resulting in the creation of a fiduciary duty owed to the borrower or issuer or its other creditors or shareholders. Although it would be a novel application of these theories of lender liability, the Issuer may be subject to allegations of lender liability. However, the Issuer does not intend to engage in conduct that would form the basis for a successful cause of action based upon lender liability.

In addition, under common law principles that in some cases form the basis for lender liability claims, if a lender or bondholder (a) intentionally takes an action that results in the undercapitalization of a borrower to the detriment of other creditors of such borrower, (b) engages in other inequitable conduct to the detriment of such other creditors, (c) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (d) uses its influence as a stockholder to dominate or control a borrower to the detriment of other creditors of such borrower, a court may elect to subordinate the claim of the offending lender or bondholder to the claims of the disadvantaged creditor or creditors, a remedy called “equitable subordination.” Because of the nature of the Collateral Debt Securities, the Issuer may be subject to claims from creditors of an obligor that Collateral Debt Securities issued by such obligor that are held by the Issuer should be equitably subordinated. However, the Issuer does not intend to engage in conduct that would form the basis for a successful cause of action based upon the equitable subordination doctrine.

The preceding discussion is based upon principles of United States federal and state law. Insofar as Collateral Debt Securities that are obligations of non-United States obligors are concerned, the laws of certain foreign jurisdictions may impose liability upon lenders or bondholders under factual circumstances similar to those described above, with consequences that may or may not be analogous to those described above under United States federal and state law.

Nature of Collateral. The Collateral is subject to credit, liquidity and interest rate risk. In addition, a significant portion of the Collateral may be acquired by the Issuer after the Closing Date, and, accordingly, the financial performance of the Issuer may be affected by the price and availability of Collateral to be purchased. The amount and nature of the collateral securing the Notes have been established to withstand certain assumed deficiencies in payments occasioned by defaults in respect of the Collateral Debt Securities. If any deficiencies exceed such assumed levels, however, payment of the Notes and the distributions on the Preference Shares could be adversely affected. To the extent that a default occurs with respect to any Collateral Debt Security securing the Notes and the Issuer (upon the advice of the Collateral Manager) 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.

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 swap rates) 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 is permitted to invest in RMBS Securities, CMBS Securities, CDO Securities, REIT Debt Securities, Mortgage Finance Company Securities, other Asset-Backed Securities and Synthetic Securities (including CDS Agreement Transactions entered into under the Credit Default Swap Agreement) the Reference Obligations of which will be Asset-Backed Securities (including RMBS Securities, CMBS Securities or CDO Securities), an ABX Index or REIT Debt Securities, the Issuer may find that, as a practical matter, these investment opportunities are not available to it for a variety of reasons such as the limitations imposed by the Investment Criteria and the requirement with respect to Synthetic Securities not entered into pursuant to a Form-Approved Synthetic Security that the Issuer receive confirmation of the Notes' ratings from both Rating Agencies. At any time, there may be a limited universe of investments that would satisfy the Investment Criteria given the other investments in the Issuer's portfolio. As a result, the Issuer may at times find it difficult to purchase suitable investments. See "Security for the Notes—Collateral Debt Securities" and "—Investment Criteria". If the Issuer is unable to purchase sufficient suitable investments, principal of all or a portion of the Notes may be repaid during the Reinvestment Period on any Monthly Distribution Date subject to certain conditions described herein. In addition, principal of all or a portion of the Notes may be repaid during the continuance of a Ratings Confirmation Failure. See "Description of the Notes—Mandatory Redemption".

Under the Indenture the Collateral Manager may only direct the acquisition and disposition of Collateral Debt Securities under certain limited circumstances. Notwithstanding such restrictions and satisfaction of the conditions set forth in the Indenture, sales and purchases of Collateral Debt Securities could result in losses by the Issuer, which losses could affect the timing and amount of payments in respect of the Notes and Preference Shares or result in the reduction in or withdrawal of the rating of any or all of the Notes by one or more of the Rating Agencies. On the other hand, circumstances may exist under which the Collateral Manager may believe that it is in the best interests of the Issuer to dispose of Collateral, but will not be permitted to do so under the restrictions and conditions of the Indenture.

Asset-Backed Securities. Most of the Collateral Debt Securities will consist of Asset-Backed Securities or Synthetic Securities (including CDS Agreement Transactions) with respect to which the Reference Obligations are Asset-Backed Securities. Asset-Backed Securities are securities that entitle the holders thereof to receive payments that depend primarily on the cash flow from, or market value of, a specified pool of financial assets, either fixed or revolving, that by their terms convert into cash within a finite time period, together with rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities. See "Security for the Notes—Asset-Backed Securities".

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

Holders of Asset-Backed Securities bear various risks, including credit risks, liquidity risks, interest rate risks, market risks, operations risks, structural risks and legal risks. See "Security for the Notes—Asset-Backed Securities" below.

A significant portion of the Collateral will consist of Asset-Backed Securities or Synthetic Securities (including CDS Agreement Transactions with respect to which the Reference Obligations are Asset-Backed Securities) that are subordinate in right of payment and rank junior to other securities that are secured by or represent an ownership interest in the same pool of assets. In addition, many of the transactions have structural features that divert payments of interest and/or principal to more senior classes when the delinquency or loss experience of the pool exceeds certain levels. As a result, such securities have a higher risk of loss as a result of delinquencies or losses on the underlying assets. 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. For example in the case of certain ABS Type Residential Securities, no distributions of principal will generally be made with respect to any class until the aggregate principal balances of the more senior classes of securities have been reduced to zero. 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 be substantial to the holders of such subordinate security.

CDO Securities. A portion of the Collateral Debt Securities acquired by the Issuer may consist of CDO Securities (including Synthetic CDO Securities). In addition, a portion of the Reference Obligations under the Synthetic Securities (including the CDS Agreement Transactions) may consist of CDO Securities.

CDO Securities generally have underlying risks similar to many of the risks set forth in these Risk Factors, such as interest rate mismatches, trading and reinvestment risk and tax considerations. Each CDO Security, however, will involve risks specific to the particular CDO Security and its Underlying Portfolio. The value of the CDO Securities 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 Securities 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 Securities 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 Security, 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 will 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.

Some of the CDO Securities included in the Collateral may have Underlying Portfolios that hold or invest in some of the same assets as the Collateral pledged to secure the Notes or held in the Underlying Portfolios of other CDO Securities pledged as Collateral. The concentration in any particular asset may adversely affect the Issuer's ability to make payments on the Offered Securities. In addition, the Underlying Portfolios of the CDO Securities may be actively traded.

CDO Securities are subject to interest rate risk. The Underlying Portfolio of an issue of CDO Securities may bear interest at a fixed or floating rate while the CDO Securities issued by such issuer may bear interest at a floating or fixed rate. As a result, there could be a floating/fixed rate or basis mismatch between such CDO Securities and Underlying Portfolios, and there may be a timing mismatch between the CDO Securities 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 Securities. 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 Securities.

CDO Securities may be subordinated to other classes of securities issued by each respective issuer thereof. CDO Securities 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 Securities. The deferral of interest by the issuer of CDO Securities forming part of the Collateral could result in a reduction in the amounts available to make payments to the holders of the Notes or in the deferral of interest on the Class C Notes and Class D Notes. The CDO Securities that the Collateral Manager anticipates will form part of the Collateral may include both senior and mezzanine debt issued by the related CDO Security issuers. The CDO Securities 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 Securities, 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 Securities is outstanding, the holders of the senior tranche thereof generally will 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).

In order to purchase and hold CDO Securities, the Issuer must satisfy at all times the investor qualifications in the applicable Underlying Instruments and applicable securities laws. Such Underlying Instruments generally require that the Issuer either be a Qualified Institutional Buyer that is also a Qualified Purchaser or a non-U.S. Person, and may require that other criteria be satisfied. In the event that the Issuer does not satisfy the requirements applicable to investors in a CDO Security, it will not be able to purchase such CDO Security. In addition, if it does not satisfy such requirements at any time after it purchases such CDO Security, the applicable Underlying Instruments may permit the issuer of such CDO Security to force the Issuer to sell such CDO Security, which sale by the Issuer could be made at a loss.

Commercial/Mortgage-Backed Securities. A portion of the Asset-Backed Securities acquired by the Issuer may consist of commercial mortgage-backed securities meeting the eligibility criteria described herein. In addition, a portion of the Reference Obligations under the Synthetic Securities (including CDS Agreement Transactions) may consist of commercial mortgage-backed securities.

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

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

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

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

It is expected that the CMBS Securities directly or synthetically 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 CMBS Securities, 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 Securities. A substantial portion of the Issuer's portfolio will consist of RMBS Securities (or Synthetic Securities, including CDS Agreement Transactions, with respect to which the Reference Obligations are RMBS Securities), including RMBS Prime Mortgage Securities, RMBS Mid-Prime Mortgage Securities, RMBS Subprime Mortgage Securities and Home Equity Loan Securities. RMBS Securities are, generally, ownership or participation interests in pools of mortgage loans secured by one to four family residential properties. RMBS Securities are subject to various risks. 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 Securities may be backed by residential mortgage loans with disproportionately large aggregate principal amounts secured by properties in only a few states or regions. As a result, the residential mortgage loans may be more susceptible to geographic risks relating to such areas, such as adverse economic conditions, adverse events affecting industries located in such areas and natural hazards affecting such areas, than would be the case for a pool of mortgage loans having more diverse property locations. In addition, the residential mortgage loans may include so-called "jumbo" mortgage loans, having original principal balances that are higher than is generally the case for residential mortgage loans. As a result, such a portfolio of RMBS Securities may experience increased losses.

In recent years, borrowers have increasingly financed their homes with new mortgage loan products, which in many cases have allowed them to purchase homes that they might otherwise have been unable to afford. Many of these new products feature low monthly payments during the initial years of the loan that can increase (in some cases, significantly) over the loan term. There is little historical data with respect to these new mortgage loan products especially during a period of increased delinquencies or defaults for such mortgage loan products. Consequently, as borrowers face potentially higher monthly payments for the remaining terms of their loans, it is possible that, combined with other economic conditions such as increasing interest rates and deterioration of home values, borrower delinquencies and defaults could exceed levels anticipated.

Recently, the subprime mortgage loan market has experienced increasing levels of delinquencies and defaults, and there can be no assurance that this will not continue. The increased levels of delinquencies and defaults, as well as a deterioration in general real estate market conditions may have adverse impacts on the performance of RMBS Securities owned by the Issuer, which, if sufficiently severe, could impact returns on the Notes and the Preference Shares.

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

RMBS Securities are susceptible to prepayment risks as they generally do not contain prepayment penalties and a reduction in interest rates will increase the prepayments on the RMBS Securities resulting in a reduction in yield to maturity for holders of such securities. Prepayments on the underlying residential mortgage loans in an issue of RMBS Securities will be influenced by the prepayment provisions of the related mortgage notes and may also be

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

The rate of interest payable on RMBS Securities directly or synthetically held by the Issuer 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 the Issuer on such RMBS Securities 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 negative impact on the yield to the Issuer on such RMBS Securities.

Furthermore, RMBS Securities 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.

It is expected that the RMBS Securities directly or synthetically 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 Securities, 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.

Legal risks can arise as a result of the procedures followed in connection with the origination of the mortgage loans or the servicing thereof which may be subject to various federal and state laws, public policies and principles of equity regulating interest rates and other charges, require certain disclosures, require licensing of originators, prohibit discriminatory lending practices, regulate the use of consumer credit information and debt collection practices and 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. In addition, structural and legal risks of RMBS Securities 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 Securities.

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

REIT Debt Securities. A portion of the Collateral Debt Securities may consist of REIT Debt Securities or Synthetic Securities (including the CDS Agreement Transactions), the Reference Obligations of which are REIT Debt Securities. REIT Debt Securities will consist of obligations of real estate investment trusts (“REITs”), or qualified REIT subsidiaries meeting the eligibility criteria described herein. The Issuer may invest in additional

types of REIT Debt Securities or Synthetic Securities relating thereto, *provided* that the Rating Condition is satisfied with respect to such investment.

Investments in REIT Debt Securities involve special risks. 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.

In addition, risks of 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 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 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 REIT Debt Securities and adversely affect the value of outstanding REIT Debt Securities and the ability of the issuers thereof to repay principal and interest.

Issuers of 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 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 REIT Debt Securities because such securities may be unsecured and may be subordinated to other creditors of the issuer of such securities.

Downward movements in interest rates could also adversely affect the performance of REIT Debt Securities. 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 REIT Debt Securities during a period of declining interest rates, it is likely that the Issuer would have to replace such called REIT Debt Securities with lower yielding Collateral Debt Securities.

As a result of the limited liquidity of 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 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 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 available on many 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.

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.

Acquisition and Disposition of, and Credit Risk under, Synthetic Securities. On the Closing Date, the aggregate Notional Amount of CDS Agreement Transactions will be approximately U.S.\$928,000,000. After the Closing Date, the Issuer may enter into additional Synthetic Securities, including additional CDS Agreement Transactions. The Collateral Manager may only acquire or dispose of Synthetic Securities in accordance with the requirements of the Indenture and Collateral Management Agreement and will only have the authority to enter into or terminate CDS Agreement Transactions with the consent of the Credit Default Swap Counterparty (which consent shall not be unreasonably withheld) *provided* that (i) with respect to any entry by the Issuer into new CDS Agreement Transactions, the parties agree on the pricing and the Credit Default Swap Counterparty arranges an offsetting transaction with a dealer acceptable to it and (ii) with respect to any termination of a CDS Agreement Transaction, the Issuer pays any termination payment which the Credit Default Swap Counterparty shall calculate based substantially upon general replacement transaction valuation methodology. Such acquisitions or dispositions may have an adverse effect on the value of the Collateral and the ability of the Issuer to make payments on the Notes. Any termination payments paid by the Issuer in respect of any CDS Agreement Transaction may have an adverse effect on the (i) amounts payable in connection with any Auction Call Redemption, Clean-Up Call Redemption Optional Redemption or Tax Redemption and (ii) proceeds received from the sale or liquidation of Collateral following an Event of Default. The customary terms in the credit default swap market are likely to change in the future, in which event the Rating Condition will need to be satisfied with respect to the entry by the Issuer into credit default swaps on such changed terms. Accordingly, there can be no assurance that the Issuer will be able to acquire Synthetic Securities to the extent or in the manner anticipated on the Closing Date. If the Rating Condition is satisfied with respect to such changed terms, then the terms of such credit default swap transactions (including the Credit Events thereunder) may be materially different from the terms of the transactions entered into under the Credit Default Swap Agreement as in effect on the Closing Date. If the Rating Condition is not satisfied with respect to such changed terms, the Issuer may not be able to acquire Synthetic Securities on the terms prevailing in the market and may as a result face increased difficulty and/or costs in remaining invested in Synthetic Securities to the full extent anticipated on the Closing Date. Furthermore, any change in customary terms available in the credit default swap market may result in the Issuer facing additional difficulty and/or cost in effecting the disposition of Synthetic Securities which utilize terms which have ceased to reflect the market standard. If the Issuer is not invested at all times in Synthetic Securities to the full extent anticipated on the Closing Date, or if it cannot acquire or dispose of Synthetic Securities, the Collateral may be less diversified than would otherwise be the case, Interest Proceeds or Principal Proceeds (as applicable) may be reduced and payments of interest or principal (including Deferred Interest) on the Notes may not be made in full, with the result that investors in the Notes may suffer a loss.

The obligation of the Issuer to make payments to the Credit Default Swap Counterparty in respect of CDS Agreement Transactions and to other Synthetic Security Counterparties under other Synthetic Securities creates exposure to the credit risk of the related Reference Obligations (as well as 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). The amount of funds available to make payments in respect of principal of and interest (and, in the case of the Class A-1 Notes, the Commitment Fee) on the Notes and dividends and other distributions on the Preference Shares are dependent upon whether and to what extent net amounts in respect of losses incurred under the Reference Obligations are due and payable by the Issuer (where it is acting as the seller of protection) to the Credit Default Swap Counterparty in respect of CDS Agreement Transactions or to other Synthetic Security Counterparties under other Synthetic Securities. 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 Noteholders and dividends and other distributions on the Preference Shares in inverse order of Seniority. Accordingly, the holders of the Preference Shareholders 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.

With respect to a CDS Agreement Transaction under which the Issuer is the seller of protection and the Credit Default Swap Counterparty is the buyer of protection, following the occurrence of a “credit event” with respect to a Reference Obligation under and as defined in the Credit Default Swap Agreement or any other Underlying Instruments relating to a Synthetic Security (a “Credit Event”) (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 Issuer, as the seller of protection, will be required to make a payment of a Physical Settlement Amount. The payment of any Physical Settlement Amount will be funded by the Issuer, in the case of a Defeased Synthetic Security, by drawing out of amounts standing to the credit of the related Synthetic Security Counterparty Account without regard to either Priority of Payments. Payments to the Credit Default Swap Counterparty in respect of any CDS Agreement Transactions (including trading termination payments payable upon the termination of an individual CDS Agreement Transaction but excluding any termination payments payable upon the termination in full of the Credit Default Swap Agreement which will only be payable on a Distribution Date subject to and in accordance with the Priority of Payments) will be funded by the Issuer applying (A) *first*, only with respect to Interest Shortfall payments, amounts standing to the credit of the Interest Collection Account; *provided* that application of such funds from the Interest Collection Account shall not cause a default in the payment of interest or commitment fee, as applicable, due and payable on the Class A Notes or Class B Notes on the immediately following Distribution Date, (B) *second*, amounts standing to the credit of the Principal Collection Account until the balance in such account is reduced to zero; and (C) *third*, amounts standing to the credit of the Reserve Account, until the Reserve Account is reduced to zero; in each case in the amount necessary to satisfy such Credit Protection Payment. To the extent application of funds from the Principal Collection Account and the Reserve Account are insufficient to pay the full amount of any such Credit Protection Payment, then the Collateral Manager on the Issuer’s behalf will deliver a notice of borrowing to the Trustee in accordance with the terms of the Class A-1 Note Purchase Agreement until the amount of such borrowing would exceed the Maximum Class A-1 Principal Amount. As a result of Credit Events, 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 in respect of any CDS Agreement Transactions or other Synthetic Securities will include the market value to the Credit Default Swap Counterparty or other Synthetic Security Counterparty of such terminated Synthetic Security, which may expose the Issuer to deterioration in the credit 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 consequently the Notes could be adversely affected thereby.

In addition, each CDS Agreement Transaction under which the Issuer is the seller of protection and the Credit Default Swap Counterparty is the buyer of protection will require (and other Synthetic Securities may require) the Issuer to pay floating amounts to the Credit Default Swap Counterparty (or Synthetic Security Counterparty) in amounts equal to any principal shortfalls, writedowns and interest shortfalls under the Reference Obligation upon the occurrence thereof (any such payment, a “Credit Protection Payment”). Although Credit Protection Payments by the Issuer in respect of CDS Agreement Transactions are (and, in the case of other Synthetic Securities, may be) contingent, even if the Credit Default Swap Counterparty (or other Synthetic Security Counterparty), in its capacity as protection buyer, reimburses all or part of such Credit Protection Payments to the Issuer if the related shortfalls are ultimately paid to holders of the Reference Obligations or if the related Reference Obligations are written up, the ability of the Issuer to make payments in respect of the Notes may be adversely affected during the period from and including the date of payment by the Issuer of the relevant Credit Protection Payment 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).

Under any CDS Agreement Transaction (other than with respect to CDS Agreement Transactions for which the underlying Reference Obligations are REIT Debt Securities) under which the Issuer acts as protection seller, a Writedown or Failure to Pay Principal in respect of a Reference Obligation will entitle the Credit Default Swap Counterparty, as protection buyer, to elect whether to deliver a Credit Event Notice or require a contingent Credit Protection Payment under the related Synthetic Security. Similar provisions may apply under other Synthetic Securities entered into by the Issuer.

Limited Information with Respect to Reference Obligations. Although a list of the Reference Obligations relating to the Synthetic Securities acquired by the Issuer will be included in the monthly reports delivered by the Trustee on behalf of the Issuer to the holders of the Notes, such holders will not otherwise have the right to obtain from the Issuer, the Trustee, the Preference Share Paying Agent, the Credit Default Swap Counterparty, any other Synthetic Security Counterparty, the Initial Purchasers, the Collateral Administrator or the Collateral Manager any other information regarding the Reference Obligations, the obligors relating thereto or information regarding any other obligations of such obligors. Neither the Credit Default Swap Counterparty nor any other Synthetic Security Counterparty will have any obligation to keep the Issuer, the Trustee, the Preference Share Paying Agent, the Collateral Manager or the holders of the Notes informed as to matters arising in relation to any Reference Obligation or Reference Obligor thereon, including whether or not circumstances exist under which there is a possibility of the occurrence of a Credit Event. Accordingly, the Collateral Manager may or may not have access to material information concerning the Reference Obligors under the Reference Obligations, including information that may be available to a direct holder of a Reference Obligation.

None of the Issuer, the Trustee, the Preference Share Paying Agent, the Collateral Manager or the holders of the Notes 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 a Credit Event has occurred and the Credit Default Swap Counterparty or other Synthetic Security Counterparty 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 Agreement Transaction or other Synthetic Security.

Under any CDS Agreement Transaction under which the Issuer acts as protection seller, the Issuer will be required (and, under other Synthetic Securities, the Issuer may be required) to (a) pay Credit Protection Payments to the Credit Default Swap Counterparty (or other Synthetic Security Counterparty) and (b) in the event that a Credit Event occurs in respect of the related Reference Obligation, pay the Physical Settlement Amount in respect of such Reference Obligation to the Credit Default Swap Counterparty (or other Synthetic Security Counterparty).

Settlement Risk. To the extent the Issuer acquires Synthetic Securities, the Issuer will bear the risk of settlement default, particularly since the terms of such Synthetic Securities may (and, in the case of CDS Agreement Transactions, will) require physical settlement by the relevant Synthetic Security Counterparty (including the Credit Default Swap Counterparty). Settlement risk will arise if the Issuer meets its payment obligation under such Synthetic Security before the Synthetic Security Counterparty meets its corresponding payment or delivery obligations thereunder. This risk may be exacerbated if Physical Settlement (in whole or in part) is required in respect of a Reference Obligation included in the portfolio of several different issues. A failure to perform by a Synthetic Security Counterparty (including the Credit Default Swap Counterparty) under any such Synthetic Security may be due to Synthetic Security Counterparty default, operational or administrative error or legal impediments. In particular, the Credit Default Swap Counterparty is expected to seek to eliminate its credit exposure to the Reference Obligations by entering into back-to-back hedging transactions, and its ability to physically settle CDS Agreement Transactions under which it is acting as protection buyer may be dependent on whether or not the counterparties to such back-to-back hedging transactions perform their delivery obligations. Such risks may differ materially from those entailed in exchange-traded transactions, which generally are backed by clearing organization guarantees, daily mark-to-market and settlement of positions, and segregation and minimum capital requirements applicable to intermediaries. Transactions entered into directly between two counterparties generally do not benefit from such protections, and expose the parties to the risk of counterparty default. Furthermore, there may be practical or timing problems associated with enforcing the Issuer's rights to its assets in the case of an insolvency of any such Synthetic Security Counterparty (including the Credit Default Swap Counterparty).

No Legal or Beneficial Interest in Reference Obligations. Under Synthetic Securities entered into by the Issuer, the Issuer will have a contractual relationship only with the Synthetic Security Counterparty. Consequently, a Synthetic Security does not constitute a purchase or other acquisition or assignment of any interest in any Reference Obligation. The Issuer will not directly benefit from the collateral supporting any Reference Obligation and will not have the benefit of the remedies that would normally be available to a holder of any such Reference Obligation. In the event of the insolvency of the Synthetic Security Counterparty, the Issuer will be treated as a general creditor of

such counterparty, and will not have any claim with respect to any Reference Obligation. The Issuer and the Trustee, therefore, will have rights solely against the Synthetic Security Counterparty in accordance with the Synthetic Security and will have no right directly to enforce compliance by any Reference Obligor with the terms of any Reference Obligation nor any rights of set-off against any Reference Obligor. Given that all or a large portion of the Synthetic Securities entered into by the Issuer will consist of CDS Agreement Transactions, the Issuer will have significant exposure to the Credit Default Swap Counterparty in the event that the Credit Default Swap Counterparty becomes insolvent.

In addition, neither any Synthetic Security Counterparty nor its Affiliates (including the Credit Default Swap Counterparty and its Affiliates) will be (or be deemed to be acting as) the agent or trustee of the Issuer or the Noteholders in connection with the exercise of, or the failure to exercise, any of the rights or powers (including, without limitation, voting rights) of the Synthetic Security Counterparty and/or its Affiliates arising under or in connection with their respective holding of any Reference Obligation.

A Synthetic Security Counterparty (including the Credit Default Swap Counterparty) will have only the duties and responsibilities expressly agreed to by it under the applicable Synthetic Security and will not, by reason of its or any of its Affiliates acting in any other capacity, be deemed to have other duties or responsibilities or be deemed to be held to any higher standard of care than that set forth in the applicable Synthetic Security or imposed by law. In no event will a Synthetic Security Counterparty be deemed to have any fiduciary obligations to the Noteholders or any other person or entity by reason of acting in such capacity. A Synthetic Security Counterparty's actions may be inconsistent with or adverse to the interests of the Noteholders.

In taking any action with respect to a Synthetic Security (including declaring or exercising its remedies in respect of a Credit Event or any other default under or termination of the Synthetic Security), the Synthetic Security Counterparty may take such actions as it determines to be in its own commercial interests and not as agent, fiduciary or in any other capacity on behalf of the Issuer or the holders of the Notes. A Synthetic Security Counterparty (including the Credit Default Swap Counterparty) or one of its Affiliates may act as a dealer for purposes of obtaining quotations with respect to a Reference Obligation.

A Synthetic Security Counterparty (or any of its Affiliates) will not be required to own or have any exposure to a Reference Obligation. If a Synthetic Security Counterparty (or one of its Affiliates) does own a Reference Obligation, it 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 Physical Settlement Amount owed by the Issuer in respect of the settlement of any Synthetic Security under which the Issuer is acting as seller of protection *minus* the market value of any deliverable obligations received by the Issuer upon such settlement may be less than the actual loss, if any, incurred by the Synthetic Security Counterparty upon such settlement and the settlement of any related back-to-back hedging transactions.

A Synthetic Security Counterparty and its Affiliates (including the Credit Default Swap Counterparty and its Affiliates), may (but are not required to) hold other obligations or securities of any issuer of a Reference Obligation, may deal in any such obligations or securities, may enter into other credit derivatives involving reference entities or reference obligations that may include 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 Security 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, a 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 Notes or that may affect the market value of Reference Obligations and/or the amounts payable thereunder. A 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 Notes or Preference Shares and which information the Synthetic Security Counterparty or such Affiliates will not disclose to the Issuer, the Collateral Manager, the Trustee or the holders of the Notes or the Preference Shares.

A Synthetic Security Counterparty and its Affiliates (including the Credit Default Swap Counterparty and its Affiliates), the Hedge Counterparty and the Initial Purchasers may act as underwriter, initial purchaser or placement agent for entities having investment objectives similar to those of the Issuer and other similar entities in the future. A Synthetic Security Counterparty (or an Affiliate thereof) may be advising or distributing securities on behalf of an issuer or providing banking or other services to an issuer at the same time at which the Collateral Manager is determining whether to enter into or terminate a Synthetic Security relating to a particular Reference Obligation under the Credit Default Swap Agreement.

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 Notes will be partially dependent on its receipt of payments from the Credit Default Swap Counterparty under the Credit Default Swap Agreement under which the Issuer is the seller of protection 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 of the Credit Default Swap Counterparty and other Synthetic Security Counterparties with respect to such payments. Because it is anticipated that the Issuer will enter into most of its Synthetic Securities (as measured by Notional Amount) 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. Similar concentration risk would apply to any other Synthetic Security Counterparty which is the obligor under multiple Synthetic Securities comprising a large portion of the Collateral.

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 Credit Default Swap 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 Credit Default Swap 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 amounts payable by the Credit Default Swap Counterparty (or other Synthetic Security Counterparty) will cease to be payable 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 distributions on the Preference Shares. 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 CDS Agreement Transactions (or other replacement Synthetic Securities following the termination of other Synthetic Securities), particularly since the Issuer is a special purpose vehicle. The Credit Default Swap Counterparty will be required to transfer cash collateral to the Issuer in respect of its obligations under the Credit Default Swap Agreement pursuant to a collateral arrangement based on the form of the ISDA Credit Support Annex if it fails to comply with certain rating downgrade provisions set forth in the Credit Default Swap Agreement required by the Rating Agencies, thereby reducing the Issuer's exposure to the credit risk of the Credit Default Swap Counterparty. A failure by the Credit Default Swap Counterparty to post collateral or replace itself as required by the Credit Default Swap Agreement could expose the Issuer to a higher degree of credit risk of the Credit Default Swap Counterparty and possibly result in there being less funds available to the Issuer to discharge its obligations to make payments in respect of the Notes and distributions on the Preference Shares. See "The Credit Default Swap Counterparty". Similar provisions may apply in respect of other Synthetic Securities.

Intermediation Fee. If the Credit Default Swap Counterparty agrees to enter into a CDS Agreement Transaction, it will agree to do so at the quoted premium *minus* an intermediation fee. An intermediation fee will be subtracted from the premium payable by the Credit Default Swap Counterparty to the Issuer.

Calculation Agency Function of Credit Default Swap Counterparty. The calculation agent under the Credit Default Swap Agreement will determine the amount of any Credit Protection Payments and Physical Settlement Amount(s) for each Credit Event payable by the Issuer in respect of CDS Agreement Transactions. The Credit Default Swap Counterparty will act as the calculation agent under the Credit Default Swap Agreement. See “The Credit Default Swap 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 of the Issuer and its own economic interests as a party to the relevant transaction.

Reinvestment Period; Entering into Additional Credit Default Swap Transactions. The Collateral Manager (on behalf of the Issuer) may cause the Issuer to enter into additional Synthetic Securities (including CDS Agreement Transactions) and may, upon the occurrence of a principal amortization or a CDS Agreement Transaction termination during the Reinvestment Period enter into replacement CDS Agreement Transactions based on the Excess Notional Amount Liquidity, Principal Proceeds and Sale Proceeds available to the Issuer during the Reinvestment Period. Although additional credit default swap transactions will be subject to the Collateral Quality Tests and certain Investment Criteria, the composition of the portfolio of Collateral could change as a result of such reinvestment. 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 CDS Agreement Transactions) as easily as it would be able to buy and sell the related Reference Obligations, and in many instances 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.

Physical Settlement. In the event that the applicable conditions to settlement have been met after the occurrence of a Credit Event, the Issuer, if it is acting as seller of protection, 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, and in the case it is acting as buyer of protection, will be obligated to deliver one or more Deliverable Obligations. Certain of the Reference Obligations to which the Issuer will be obtaining credit exposure through the CDS Agreement Transactions and other Synthetic Securities may also be Reference Obligations for other transactions with other unrelated issuers who are obtaining credit exposure through separate and unrelated credit default swap transactions. To the extent the same Reference Obligation is referenced in multiple credit default swap transactions, the counterparty, as buyer of protection may be unable to effect physical settlement (in whole or in part) by delivering such underlying Reference Obligation to the Issuer in the manner required by the terms of the related CDS Agreement Transaction or Synthetic Security, as applicable. There can be no assurances in such circumstance that the counterparty will be able to find suitable alternative Deliverable Obligations for physical delivery.

Pursuant to the definition thereof, Deliverable Obligations are required to (a) satisfy the criteria set forth in paragraphs (1) through (3), (5) through (15) of the Eligibility Criteria and paragraphs (a) through (d), (f) through (j), (l) through (p) and (s) through (x) of the Concentration Limitations at the time such debt obligation is delivered or (b) satisfy the criteria set forth in paragraphs (6) through (8) of the Eligibility Criteria and the Rating Condition; *provided* that the criteria set forth in paragraphs (l) and (m) of the Concentration Limitations need not be satisfied with respect to a Deliverable Obligation delivered to the Issuer pursuant to the terms of a Synthetic Security. The Collateral Manager is entitled to sell or otherwise dispose of any Deliverable Obligations in accordance with the procedures described in “Security for the Notes—Dispositions of Collateral Debt Securities”. There is, however, no guarantee that the Collateral Manager will succeed in selling any Deliverable Obligation, and the time required to sell a Deliverable Obligation cannot be predicted. If a Deliverable Obligation is sold, there is no guarantee that the Sale Proceeds of the Deliverable Obligation will result in 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 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 Preference Shares.

Payments to Credit Default Swap Counterparty Outside of the Priority of Payments. Payments of Credit Protection Amounts, Physical Settlement Amounts and payments owed by the Issuer on assignment or termination of an individual CDS Agreement Transaction (other than in connection with removal of the Credit Default Swap Agreement) will be paid directly to the Credit Default Swap Counterparty out of *first*, only with respect to Interest Shortfall payments, the Interest Collection Account; *provided* that application of such funds from the Interest Collection Account shall not cause a default in the payment of interest or commitment fee, as applicable, due and payable on the Class A Notes or Class B Notes on the immediately following Distribution Date, *second*, the Principal Collection Account, *third*, the Reserve Account, and *fourth*, proceeds of the Class A-1 Notes and will not be subject to the Priority of Payments.

Termination of the Credit Default Swap Agreement. In the circumstances specified in the Credit Default Swap Agreement, the Issuer or the Credit Default Swap Counterparty may terminate the Credit Default Swap Agreement (and all of the CDS Agreement Transactions). The Credit Default Swap Agreement is subject to early termination by the Issuer in the event of an “Event of Default” by the Credit Default Swap Counterparty or a “Termination Event” (as such terms are defined in the Credit Default Swap Agreement) affecting the Credit Default Swap Counterparty under the Credit Default Swap Agreement. The Credit Default Swap Agreement is subject to early termination by the Credit Default Swap Counterparty in the event of an “Event of Default” by the Issuer or a “Termination Event” affecting the Issuer under the Credit Default Swap Agreement. See “The Credit Default Swap Agreement—Early Termination of the Credit Default Swap Agreement.”

In addition, the Credit Default Swap Agreement is subject to early termination (as more fully described in “The Credit Default Swap Agreement”) if (i) a Credit Default Swap Ratings Event occurs and is continuing; (ii) an Event of Default occurs under the Indenture and is continuing and the Collateral has been liquidated in full; (iii) an Optional Redemption, Tax Redemption, an Auction Call Redemption or Clean-Up Call Redemption occurs; or (iv) a Termination Event (as such term is defined in the Class A-1 Note Purchase Agreement) occurs under the Class A-1 Note Purchase Agreement.

Under the Credit Default Swap Agreement, with respect to an “Event of Default” or a “Termination Event,” the non-defaulting party or the non-affected party will designate the “Early Termination Date” and will determine the “Termination Payment” (as such terms are defined in the Credit Default Swap Agreement) with respect to all the CDS Agreement Transactions that is payable to or by the Issuer, or as applicable, to or by the Credit Default Swap Counterparty. Any termination payment payable by the Issuer to the Credit Default Swap Counterparty in connection with the termination in full of the Credit Default Swap Agreement will (i) be payable on a Distribution Date subject to and in accordance with the Priority of Payments, (ii) other than in the case of any Defaulted Synthetic Termination Payment, rank senior in the Priority of Payments to all payments in respect of the Notes and (iii) reduce the Interest Proceeds and Principal Proceeds available to make payments on the Notes and Preference Shares, and may result in an Event of Default under the Indenture and a loss to the holders of the Notes and holders of the Preference Shares, which loss could be substantial. Such an early termination of the Credit Default Swap Agreement following an “Event of Default” or “Termination Event” will not by itself, however, constitute an Event of Default under the Indenture. Following the effective designation of an early termination date, no further payments, other than the termination payment and “Unpaid Amounts” (as such term is defined in the Credit Default Swap Agreement) will be required to be made by either the Issuer or the Credit Default Swap Counterparty under the Credit Default Swap Agreement. The Issuer will retain the Deliverable Obligations but will no longer receive payments of premium amounts from the Credit Default Swap Counterparty, which will reduce the Interest Proceeds available to make payments on the Notes and Preference Shares.

The termination payment due from the Issuer to the Credit Default Swap Counterparty in connection with the termination of the Credit Default Swap Agreement (or from the Credit Default Swap Counterparty to the Issuer) will be determined by the Credit Default Swap Counterparty and be payable on the next succeeding Distribution Date in accordance with the Priority of Payments. If a termination payment would be due from the Issuer to the Credit

Default Swap Counterparty, the Issuer may not be able to consummate an Optional Redemption, Tax Redemption, Auction Call Redemption or Clean-Up Call Redemption and may not be able to meet one or more of the required conditions to liquidate the Collateral following an Event of Default.

Liquidity provided by the Class A-1 Notes. In the circumstances specified in the Class A-1 Note Purchase Agreement, the Issuer or the Class A-1 Noteholder may terminate the Class A-1 Note Purchase Agreement. Given that all or a large portion of the Synthetic Securities entered into by the Issuer will consist of CDS Agreement Transactions and the Issuer will be relying (to the extent that amounts on deposit in, *first*, only with respect to Interest Shortfall payments, the Interest Collection Account; *provided* that application of such funds from the Interest Collection Account shall not cause a default in the payment of interest or commitment fee, as applicable, due and payable on the Class A Notes or Class B Notes on the immediately following Distribution Date, *second*, the Principal Collection Account and *third*, the Reserve Account are insufficient therefor) on amounts received from Class A-1 Notes in order to satisfy its payment obligations under the CDS Agreement Transactions, the Issuer will have significant exposure to the Holders of the Class A-1 Notes.

The Class A-1 Noteholder's commitment to fund the Class A-1 Notes is subject to certain conditions set forth in the Class A-1 Note Purchase Agreement and described herein. Furthermore, the Class A-1 Noteholder is subject to certain threshold requirements with respect to its short-term and long-term ratings, failing which, the Class A-1 Noteholder will be obligated to either transfer its interest in the Class A-1 Notes or deposit Eligible Investments equal to the entire amount of its outstanding commitments to the Issuer at such time in a securities account. There can be no assurances that a suitable transferee can be found that will satisfy the rating criteria and assume such Class A-1 Noteholder's obligations under the Class A-1 Notes or that the Class A-1 Noteholder will have the ability to fund the entire outstanding amount of its commitment at such time. The Issuer may therefore face potential exposure to a higher degree of credit risk on the Class A-1 Noteholder and possibly result in there being less funds available to the Issuer to purchase additional Collateral Debt Securities and discharge its obligations to make payments in respect of the Credit Default Swap Agreement, the Notes and distributions on the Preference Shares.

Illiquidity of Credit Default Swaps; Effect of Credit Spreads on Termination Payment. The market for credit default swaps on Asset-Backed Securities has only existed for a few years and is not liquid (compared to the market for credit default swaps on investment grade corporate reference entities). Credit default swaps with "pay as you go" credit events have only recently been introduced into the market, and the terms have not yet been standardized and may change significantly after the Closing Date (which will make it more difficult for the Issuer to liquidate or value a credit default swap upon a termination). The current premiums which a "buyer" of protection will pay under credit default swaps for reference obligations that are Asset-Backed Securities are at very low levels (compared to the levels during the past five years). This results in part from the fact that the current interest rate spreads over LIBOR (or, in the case of fixed rate Asset-Backed Securities, over the applicable U.S. Treasury Benchmark) on Asset-Backed Securities are at very low levels (compared to the levels during the past ten years); in the event that such interest rate spreads widen or the prevailing credit premiums on credit default swaps on Asset-Backed Securities increase after the Closing Date, the amount of a termination payment upon a termination of a Synthetic Security due from the Issuer to the related Synthetic Security Counterparty could increase by a substantial amount.

Amendment of Credit Default Swap Agreement; Credit Derivatives Definitions. The Credit Default Swap Agreement provides (and other Synthetic Securities may provide) that no material amendment, modification or waiver in respect thereof may be entered into by the Issuer and the Credit Default Swap Counterparty (or Synthetic Security Counterparty) unless (i) a copy of such proposed amendment, modification or waiver has been delivered to the Trustee and the Collateral Manager no less than 10 Business Days prior to the proposed effective date thereof and (ii) such material amendment, modification or waiver satisfies the Rating Condition. In addition, the Credit Default Swap Agreement will not be amended if such amendment would materially adversely affect any Class of Notes unless (A) notice of such amendment has been delivered by the Issuer (or the Trustee on behalf of the Issuer) to the Noteholders of each such Class materially adversely affected thereby and (B) a Majority of the Noteholders of each such Class has not, within the period specified in the Credit Default Swap Agreement after receipt of such notice, informed the Issuer that such Class objects to such amendment.

However, the foregoing does not apply to amendments to the Credit Derivatives Definitions effected by ISDA after the Closing Date. Each of the CDS Agreement Transactions will (and other Synthetic Securities may) incorporate the Credit Derivatives Definitions to the extent agreed upon by the Issuer and the Credit Default Swap Counterparty and may include any amendment, modification or supplement thereto effected after the effective date

of the relevant Synthetic Security if the parties so agree. The credit default swap market is expected to change and the Credit Derivatives Definitions and terms applied to credit derivatives are subject to interpretation and further evolution. Such amendments, modifications or supplements may therefore materially affect, in a manner that is adverse to the interests of the Issuer and the Noteholders, the material terms of a Synthetic Security negotiated by the Collateral Manager on behalf of the Issuer prior to the entry by the Issuer into such Synthetic Security.

Past events have shown that the views of market participants may differ as to how the Credit Derivatives Definitions operate or should operate. There can be no assurances that changes to the Credit Derivatives Definitions and other terms applicable to credit derivatives generally will be predictable or favorable to the Issuer. Markets in different jurisdictions have also already adopted and may continue to adopt different practices with respect to the Credit Derivative Definitions. The Credit Derivatives Definitions may contain ambiguous provisions that are subject to interpretation and may result in consequences that are adverse to the Issuer. Therefore, in addition to the credit risk of the Reference Obligations and the credit risk of the Synthetic Security Counterparties, the Issuer is also subject to the risk that the Credit Derivatives Definitions could be interpreted in a manner that would be adverse to the Issuer or that the credit derivatives market generally may evolve in a manner that would be adverse to the Issuer.

Defeased Synthetic Securities. If the terms of any Defeased Synthetic Security require the Issuer to secure its obligations with respect to such Synthetic Security, funds will be deposited into a Synthetic Security Counterparty Account. In accordance with the terms of the applicable Defeased Synthetic Security, funds deposited in the related Synthetic Security Counterparty Account will be invested in Eligible Investments or other Synthetic Security Collateral for the purpose of securing the Issuer's obligations under such Defeased Synthetic Security. After payment of all amounts owing by the Issuer to the relevant Synthetic Security Counterparty or a default which entitles the Issuer to terminate its obligations under such Defeased Synthetic Security, all funds and other property standing to the credit of the Synthetic Security Counterparty Account related to such Defeased Synthetic Security will be credited to the Principal Collection Account (in the case of cash and Eligible Investments) and the Custodial Account (in the case of Collateral Debt Securities and other financial assets). Such items of Synthetic Security Collateral that are credited to the Custodial Account may not satisfy certain Investment Criteria when they are credited to the Custodial Account.

Additional Limitations on the Issuer. The Issuer will observe certain limitations on its ability to purchase Synthetic Securities in order to ensure that it is not treated as a "dealer in securities" or otherwise treated as engaged in a trade or business in the United States for U.S. federal income tax purposes.

Redemption of Notes and the Preference Shares; Potential Illiquidity and Volatility of Collateral Market Value. An Optional Redemption, Tax Redemption Auction Call Redemption or Clean-Up Call Redemption is a potential source of liquidity for the Notes and the Preference Shares. There can be no assurance, however, that the Issuer's rights to an Optional Redemption, Tax Redemption Auction Call Redemption or Clean-Up Call Redemption will be exercised or that the conditions for any such redemption will be met. A Majority-in-Interest of Preference Shares have the right to direct an Optional Redemption, which may materially adversely affect the rights of one or more Classes of Noteholders, however there is no assurance that such Majority will exercise this right or that, if exercised, the conditions for such redemption will be met. See "Description of the Notes—Optional Redemption and Tax Redemption."

An Optional Redemption, Tax Redemption, Auction Call Redemption or Clean-Up Call Redemption would result in a liquidation and sale of the Collateral Debt Securities into then-existing markets. The market value of the Collateral Debt Securities 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 and the financial condition of the underlying obligors on or issuers of the Collateral Debt Securities (or, in the case of Synthetic Securities, including Synthetic Securities entered into under the Credit Default Swap Agreement, the financial condition of the Reference Obligors). Lower ratings of Collateral Debt Securities reflect a greater possibility that adverse changes in the financial condition of an issuer or obligor or in general economic conditions or both may impair the ability of such underlying issuers or obligors to make payments of principal, interest and premium. Any termination payments paid by the Issuer under any CDS Agreement Transaction or other Synthetic Security terminated in connection with such redemption may have an adverse effect on the (i) amounts payable in connection with any Auction Call Redemption, Clean-Up Call Redemption, Optional Redemption or Tax Redemption and (ii) proceeds received from the sale or liquidation of Collateral following an Event of Default. In addition, future periods of uncertainty in the United States economy and

the economies of other countries in which issuers or obligors of Collateral Debt Securities are domiciled and the possibility of increased volatility and default rates in certain financial markets may also adversely affect the price and liquidity of the Collateral Debt Securities.

A decrease in the market value of the Collateral Debt Securities would adversely affect the Sale Proceeds that could be obtained upon the sale or other disposition of the Collateral Debt Securities and ultimately the ability of the Co-Issuers to pay in full or redeem the Notes.

A decrease in the market value of the Collateral Debt Securities would adversely affect the Sale Proceeds which could be obtained upon the sale or other disposition of Collateral Debt Securities and be available for distributions on the Preference Shares. Therefore, there can be no assurance that, upon any Optional Redemption, Tax Redemption, Auction Call Redemption or Clean-Up Call Redemption, the Sale Proceeds realized would equal at least the Total Redemption Amount (in the case of an Optional Redemption, Tax Redemption or Clean-Up Call Redemption) or the Auction Call Redemption Amount (in the case of an Auction Call Redemption), thus permitting such a redemption. In any redemption, there is no assurance that the holders of the Preference Shares would receive their initial investment.

Illiquidity of Collateral Debt Securities. Some of the Collateral Debt Securities purchased by the Issuer will have no, or only a limited, trading market. The Issuer's investment in illiquid Collateral Debt Securities may restrict its ability to dispose of investments in a timely fashion and for a fair price as well as its ability to take advantage of market opportunities, although the Issuer is generally prohibited by the Indenture from selling Collateral Debt Securities except under certain limited circumstances described under "Security for the Notes—Dispositions of Collateral Debt Securities". Illiquid Collateral Debt Securities may trade at a discount from 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.

Reliance on Creditworthiness of Class A-1 Noteholder. The ability of the Co-Issuers to meet their obligations under the Notes, the Credit Default Swap Agreements and the Preference Shares, in each case, will be dependent, to a significant extent, on the periodic funding of the Class A-1 Notes. Consequently, the Co-Issuers will be exposed to the credit risk of the Class A-1 Noteholder and there will be a degree of concentration risk with respect to such credit risk. The insolvency of the Class A-1 Noteholder or a default by the Class A-1 Noteholder under the Class A-1 Note Purchase Agreement may materially adversely affect the ability of the Co-Issuers to repay principal and interest when due under the Notes and could result in a withdrawal or downgrade of the ratings assigned to the Notes. The Collateral Manager will not perform an independent credit analysis of the Class A-1 Noteholder. However, the Class A-1 Noteholder will agree to specific rating thresholds and downgrade requirements acceptable to the Rating Agencies as a condition to the Class A-1 Noteholder's purchase of the Class A-1 Notes. A failure by the Class A-1 Noteholder to maintain the required ratings threshold may result in a funding requirement for the full Commitment Amount applicable to the Class A-1 Noteholder. There can be no assurance that a Class A-1 Noteholder not satisfying the Class A-1 Note ratings requirement will be able to fully satisfy any resulting funding requirement.

Commitments, Borrowings and Prepayments under the Class A-1 Notes. Holders of the Class A-1 Notes will, upon written request by the Issuer on two Business Day's notice and subject to certain borrowing conditions specified in the Class A-1 Note Purchase Agreement, advance funds to the Issuer up to an aggregate principal amount of U.S.\$770,000,000; *provided* that at the time of and immediately after giving effect to such borrowing certain conditions are satisfied, as described herein. See "Description of the Notes—The Class A-1 Note Purchase Agreement". The Issuer intends that the Class A-1 Notes will be the main source of funds available to the Issuer in order to meet the Issuer's payment obligations under the CDS Agreement Transactions. The Issuer will have limited sources of funds available to meet such commitments, other than the Class A-1 Note Purchase Agreement and the Issuer may be unable to meet its obligations under the CDS Agreement Transactions if the purchaser under the Class A-1 Note Purchase Agreement is unable to meet its obligations under the Class A-1 Note Purchase Agreement. The Class A-1 Notes may be prepaid pursuant to the Priority of Payments and may be subject to early redemption in the manner set forth in the Indenture and summarized herein.

Reduction of the Aggregate Outstanding Amount of Class A-1 Notes. On each Monthly Distribution Date, if the Aggregate Outstanding Amount of the Class A-1 Notes is greater than zero, then Principal Proceeds that would otherwise be available to reinvest in Collateral Debt Securities, in accordance with the Priority of Payments, may be used, at the Collateral Manager's discretion, to pay principal on the Class A-1 Notes under the Class A-1 Note Purchase Agreement until the Aggregate Outstanding Amount of Class A-1 Notes is reduced to zero. Such application may adversely affect the return to holders of, and cash flows available to make payments on, the Offered 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 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, RMBS Prime Mortgage Securities, RMBS Mid-Prime Mortgage Securities, RMBS Subprime Mortgage Securities and Manufactured Housing Securities (collectively, "Consumer Protected Securities"). Depending on the provisions of the applicable law and the specific facts and circumstances involved, violations of these laws, policies and principles may limit the ability of the issuer of a Consumer Protected Security to collect all or part of the principal of or interest on the underlying loans, may entitle a borrower to a refund of amounts previously paid and, in addition, could subject the owner of a mortgage loan to damages and administrative enforcement.

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

- (1) the Federal Truth in Lending Act and Regulation Z promulgated under the Truth in Lending Act, which require particular disclosures to the borrowers regarding the terms of the loans;
- (2) the Equal Credit Opportunity Act and Regulation B promulgated under the Equal Credit Opportunity Act, which prohibit discrimination on the basis of age, race, color, sex, religion, marital status, national origin, receipt of public assistance or the exercise of any right under the Consumer Credit Protection Act, in the extension of credit;
- (3) the Americans with Disabilities Act, which, among other things, prohibits discrimination on the basis of disability in the full and equal enjoyment of the goods, services, facilities, privileges, advantages or accommodations of any place of public accommodation;
- (4) the Fair Credit Reporting Act, which regulates the use and reporting of information related to the borrower's credit experience;
- (5) the Home Ownership and Equity Protection Act of 1994, which regulates the origination of high cost loans;
- (6) the Depository Institutions Deregulation and Monetary Control Act of 1980, which preempts certain state usury laws; and
- (7) the Alternative Mortgage Transaction Parity Act of 1982, which preempts certain state lending laws which regulate alternative mortgage transactions.

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.

Some of the mortgages loans backing a Consumer Protected Security may have been underwritten with, and finance the cost of, credit insurance. From time to time, originators of mortgage loans that finance the cost of credit insurance have been named in legal actions brought by Federal and state regulatory authorities alleging that certain practices employed relating to the sale of credit insurance constitute violations of law. If such an action were brought against such issuer with respect to mortgage loans backing such Consumer Protected Security and were

successful, it is possible that the borrower could be entitled to refunds of amounts previously paid or that such issuer could be subject to damages and administrative enforcement.

In addition, numerous Federal and state statutory provisions, including the Federal bankruptcy laws, the Servicemembers' Civil Relief Act of 2003, as amended and state debtor relief laws, may also adversely affect the ability of an issuer of a Consumer Protected Security to collect the principal of or interest on the loans, and holders of the affected Consumer Protected Securities may suffer a loss if the applicable laws result in these loans becoming uncollectible.

Ratings Confirmation Failure; Mandatory Redemption. The Issuer will notify each Rating Agency, the Class A-1 Noteholder, the Credit Default Swap Counterparty and each Hedge Counterparty in writing of the occurrence of the Ramp-Up Completion Date within 35 days after the Ramp-Up Completion Date occurs (each such notice a "Ramp-Up Notice"). If a Ratings Confirmation Failure occurs, then the Collateral Manager, on behalf of the Issuer, expects to propose to the Rating Agencies, the Credit Default Swap Counterparty and the Class A-1 Noteholder its plan intended for meeting the Rating Agencies' requirements to obtain a Ratings Confirmation; otherwise, on the Distribution Date relating to the first Determination Date occurring thereafter, the Issuer will be required to apply *first*, Excess Reserve Account Assets, *second*, Interest Proceeds and *third*, Principal Proceeds to *first*, the reduction of the Remaining Unfunded Class A-1 Commitment Amount until the Remaining Unfunded Class A-1 Commitment Amount is reduced to zero by making a deposit to the Reserve Account and *second*, the repayment of the Notes (sequentially in direct order of Seniority) in accordance with the Priority of Payments and as and to the extent necessary to obtain a Ratings Confirmation. See "Description of the Notes—Mandatory Redemption" and "—Priority of Payments". The Notional Amount of any Interest Rate Hedge Agreement may be reduced in connection with a reduction of the Remaining Unfunded Class A-1 Commitment Amount and redemption of Notes on any such Distribution Date by reason of any Ratings Confirmation Failure. See "Security for the Notes—The Hedge Agreements".

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

International Investing. A portion of the Collateral Debt Securities may consist of obligations of an issuer located in a Special Purpose Vehicle Jurisdiction or obligations of a Qualifying Foreign Obligor. Moreover, subject to compliance with certain of the Investment 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, (iv) risks of economic dislocations in such other country and (v) less data on historic default and recovery rates for the Collateral Debt Securities. 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.

Certain Conflicts of Interest. The activities of the Collateral Manager, the Initial Purchasers 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 business services and investment activities of the Collateral Manager and its Affiliates. This section is not intended to be an exhaustive list of all such conflicts or their potential consequences. The Collateral Manager and its Affiliates may invest for their own accounts or for the account of others in debt obligations or other securities that would be appropriate as collateral for the Notes and have no duty in making such investments to act in a way that is favorable to the Issuer or the holders of the Notes or the holders of the Preference Shares. Such investments may be different from those made on behalf of the Issuer. The Collateral Manager and its Affiliates or clients thereof may have economic interests in or other relationships with issuers in whose obligations or securities the Issuer may invest. In particular, the Collateral Manager or its Affiliates or clients thereof 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 the Collateral Manager or its Affiliates or clients thereof 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 discretion (except as provided below under "Security for the Notes—Dispositions of Collateral Debt Securities") make investment recommendations and decisions that may be the same as or different from those made with respect to the Issuer's investments.

When purchasing or selling the same securities or interests in a fund for more than one client account at the same time, the Collateral Management Agreement will require the Collateral Manager to allocate investment opportunities fairly, and in the event that an allocation will not be effected pro rata among client accounts with similar investment guidelines, prepare a written rationale for the disproportionate allocation for internal records. The Collateral Manager intends to use its reasonable efforts to allocate such investment opportunities among the Issuer and its other accounts on a pro rata or other equitable basis to the extent possible under the prevailing facts and circumstances and in accordance with applicable law. Notwithstanding the foregoing, for these and other reasons, not all accounts managed or advised by the Collateral Manager will participate in the gains or losses experienced by other accounts with similar investment objectives.

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 employees may have conflicts in allocating their time and services among the Issuer and the Collateral Manager's and its Affiliates' other accounts. 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's ability to advise the Issuer.

The Collateral Manager currently serves as the collateral manager for other collateral debt obligations and expects to serve as collateral manager for other collateral debt obligations in the future. The Collateral Manager or any of its Affiliates may from time to time simultaneously seek to purchase investments or buy protection on certain assets for the Issuer and other entities for which it serves as collateral manager, or for its clients or Affiliates.

The Indenture places significant restrictions on the Collateral Manager's ability to buy and sell Collateral Debt Securities. Accordingly, during certain periods or in certain circumstances, the Collateral Manager may be unable as a result of such restrictions to buy or sell securities or to take other actions that it might consider to be in the best interest of the Issuer and the holders of the Notes.

The Collateral Manager may direct that the Issuer acquire any Collateral Debt Security or Equity Security for inclusion in the Collateral from any account or portfolio for which the Collateral Manager or any of its Affiliates that are controlled by the Collateral Manager, or to its actual knowledge, any other Affiliates, serves as investment advisor, or sell any Collateral Debt Security or Equity Security to any account or portfolio for which the Collateral Manager or any of its Affiliates that are controlled by the Collateral Manager, or to its actual knowledge any other Affiliates, serves as investment adviser; provided that (i) any such transaction is in the best interest of the Issuer, (ii) the Collateral Manager shall disclose to clients in writing the capacity in which the Collateral Manager is acting, (iii) the Collateral Manager shall obtain the client's informed consent prior to completing each such transaction and (iv) such acquisition or sale by the Issuer shall be conducted on an arm's length basis or on terms no less favorable to the Issuer than those that would be obtained in an arm's length transaction.

The Collateral Manager may effect client cross-trades whereby the Collateral Manager causes a transaction to be effected between the Issuer and another account or portfolio managed or advised by it or any of its Affiliates controlled by the Collateral Manager, or to its actual knowledge, any other Affiliates, provided that (i) neither it nor the Affiliate will receive any compensation (other than its advisory fee) in connection therewith and (ii) the Collateral Manager sends a post-trade notice thereof to each participating client, and in the case of a cross-trade involving an account of an Affiliate, follow the procedures of principal transactions as set forth in the previous paragraph.

Neither the Collateral Manager nor any of its Affiliates is required to hold any Preference Shares or Notes; consequently, the interests of the Collateral Manager may be less aligned with those of the Noteholders and Preference Shareholders than if it were required to hold a minimum amount of Preference Shares or Notes. In addition, to the extent that the Collateral Manager or one of its affiliates is a holder of Notes or Preference Shares, its interests as a holder will not necessarily be fully aligned with those of the other holders of the Offered Securities (or of the holders of any particular Class of the Notes or of the Preference Shares).

The ownership of certain of the Offered Securities by the Collateral Manager, its Affiliates or client accounts for which the Collateral Manager or its Affiliates act as investment adviser may give the Collateral Manager an incentive to take actions that vary from the interests of the holders of the other Offered Securities. Although the Collateral Manager, or an Affiliate of the Collateral Manager, may hold such Securities directly or indirectly through its Affiliates or accounts for which the Collateral Manager or its Affiliates act as investment adviser until the redemption in full of the Notes, none of the Collateral Manager, its Affiliates and such accounts is contractually restricted under the Indenture or the Collateral Management Agreement or otherwise from selling or otherwise disposing of all or part of any of the Offered Securities held by it. Although the Collateral Manager or one of its Affiliates may at times be a holder of Offered Securities, the interests and incentives of the Collateral Manager will not necessarily be aligned with those of the other holders of Offered Securities. Pursuant to the terms of the Collateral Management Agreement, the Issuer has acknowledged and consented to any potential and actual conflicts of interest that may exist with respect to ownership of the Offered Securities by the Collateral Manager or any of its Affiliates.

The Collateral Manager or any of its Affiliates may bid at each Auction and, even if it may not have been the highest bidder, will have the option to purchase all of the Collateral Debt Securities for a purchase price equal to the highest bid therefor, which could discourage some potential bidders from participating in the Auctions.

Conflicts of Interest Involving the Initial Purchasers. Certain of the Collateral Debt Securities acquired by the Issuer will consist of obligations of issuers or obligors, or obligations sponsored or serviced by companies, for which one or more of the Initial Purchasers and their respective Affiliates has acted, may currently be acting or in the future may act as underwriter, agent, placement agent, initial purchaser or dealer or for which one or more of the Initial Purchasers and their respective Affiliates has acted as lender or provided other commercial or investment banking services. CALYON or one of its Affiliates will act as the Credit Default Swap Counterparty under the Credit Default Swap Agreement. The Credit Default Swap Counterparty is expected to seek to eliminate its credit exposure to the Reference Obligations by entering into back-to-back hedging transactions with dealers selected by

the Credit Default Swap Counterparty in its sole discretion. The fixed rate premium received by the Credit Default Swap Counterparty under any such back-to-back hedging transaction will exceed the premium payable by the Credit Default Swap Counterparty to the Issuer under the related Synthetic Security, which excess represents an intermediation fee payable to the Credit Default Swap Counterparty. In addition, an Affiliate of either Initial Purchaser may act as the Hedge Counterparty under one or more Hedge Agreements. CALYON (or an Affiliate thereof) in its role as the Credit Default Swap Counterparty, will have the right to make determinations and to take actions or to decline to take actions which may have an adverse effect on the Issuer, Noteholders and Preference Shareholders. Whether and when to declare a Credit Event and to deliver any notice that a Credit Event or a Floating Amount Event has occurred will be in the sole discretion of the Credit Default Swap Counterparty, and none of the Credit Default Swap Counterparty, the calculation agent or any of their Affiliates will have any liability to any Noteholder, any Preference Shareholder or any other person as a result of giving (or not giving) any such notice. If a Writedown or Failure to Pay Principal occurs, the Credit Default Swap Counterparty, if it is acting as the buyer of protection, may elect to require the Issuer to pay the Credit Protection Payment or to treat it as a Credit Event and physically settle under the CDS Agreement Transaction. In addition, the Credit Default Swap Counterparty will have a right to determine, in its sole discretion, the termination payment to be made by the Issuer to it or by it to the Issuer in connection with the termination at the request of the Issuer of one or all of the CDS Agreement Transactions and it has no liability to any Noteholder, any Preference Shareholder or any other person (other than any liability which it may have to the Issuer under the Credit Default Swap Agreement) as a result of making such determination.

There can be no assurance that the terms of the Credit Default Swap Agreement are the most favorable terms that the Issuer could obtain in the market if it entered into an identical agreement with another potential counterparty that was not an Affiliate of any of the Initial Purchasers.

Certain of the Reference Obligations under the Credit Default Swap Agreement may be obligations of Reference Obligors that are, or may be Reference Obligations that are, sponsored or serviced by companies for which one or more of the Initial Purchasers, the Credit Default Swap Counterparty and their respective Affiliates have acted as underwriter, agent, placement agent or dealer or for which one or more of the Initial Purchasers, the Credit Default Swap Counterparty and their respective Affiliates has acted as lender or provided other commercial or investment banking services. Any of the Initial Purchasers, the Credit Default Swap Counterparty and their respective Affiliates may (i) be an investor in, a lender to or other secured or unsecured creditor of any Reference Obligor or a holder of a Reference Obligation and, in such capacity, may make decisions in such capacity in its own commercial interests, regardless of whether any such action might have an adverse effect on the holders of the Notes, the Preference Shares, or on any Reference Obligation (including, without limitation, any action which might constitute or give rise to a Credit Event or might diminish the value of a Reference Obligation), (ii) engage in derivative transactions (including credit derivative transactions) with any Reference Obligor and may provide investment banking and other financial services to any Reference Obligor, (iii) hold long or short financial positions with respect to the Reference Obligations or other securities or obligations of any Reference Obligor or the Issuer, (iv) act with respect to such financial positions and may exercise or enforce, or refrain from exercising or enforcing, any or all of their rights and powers in connection with such financial positions as if the relevant Initial Purchaser or Credit Default Swap Counterparty (as applicable) had not entered into the Securities Purchase Agreement, Credit Default Swap Agreement or any other agreement with the Issuer, and without regard to whether any such action might have an adverse effect on the Issuer, any holder of Notes or Preference Shares, any Reference Obligor or any obligation of the Issuer or any Reference Obligor and/or (v) have received or may in the future receive significant fees for such services. Each of the Initial Purchasers and the Credit Default Swap Counterparty will have only the duties and responsibilities expressly agreed to in the relevant capacity in which it is performing and will not, by virtue of it or any of its Affiliates acting in any other capacity, be deemed to have other duties or responsibilities or be deemed to be held to a standard of care other than as expressly provided with respect to each such capacity.

CALYON will sell all or most of the initial portfolio of Collateral Debt Securities to the Issuer on the Closing Date. The Collateral Manager may also direct the Issuer to purchase additional Collateral Debt Securities from CALYON after the Closing Date and on or prior to the Ramp-Up Completion Date. Moreover, the Initial Purchasers or their respective Affiliates may from time to time enter into derivative transactions with third parties with respect to the Offered Securities, and the Initial Purchasers or their respective Affiliates may, in connection therewith, acquire (or establish long, short or derivative financial positions with respect to) Offered Securities, Collateral Debt Securities or one or more portfolios of financial assets similar to the portfolio of Collateral Debt Securities acquired

by (or intended to be acquired by) the Issuer. 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 an Initial Purchaser or an Affiliate thereof were or are the most favorable terms available in the market at the time from potential counterparties.

On or after the Closing Date, a substantial amount of the Reserve Account may be invested in securities lending agreements between the Issuer and CALYON. There can be no assurance that the terms of any such securities lending agreement will be on the most favorable terms that the Issuer could obtain in the market if it entered into an identical agreement with another potential counterparty that was not an Affiliate of any of the Initial Purchasers.

Each of the Initial Purchasers and their respective Affiliates may act in its own commercial interest, in any of the other capacities listed above, and need not consider whether its actions will have an adverse effect on the Issuer, Noteholders or Preference Shareholders.

Conflicts of Interest Involving the Class A-1 Noteholder. CALYON or one of its Affiliates will purchase all of the Class A-1 Notes on the Closing Date. The Class A-1 Noteholder and its respective Affiliates may hold other obligations or securities of any issuer of a Reference Obligation, may deal in any such obligations or securities, may enter into other credit derivatives involving reference entities or reference obligations that may include 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 Class A-1 Note Purchase Agreement did not exist, regardless of whether any such relationship or action might have an adverse effect on the position of the Issuer, the Noteholders or any other party to the transactions described herein or otherwise. In addition, the Class A-1 Noteholder and/or its Affiliates may from time to time possess interests in the issuers of Reference Obligations and/or Reference Obligations allowing the Class A-1 Noteholder 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 Notes or that may affect the market value of Reference Obligations and/or the amounts payable thereunder. The Class A-1 Noteholder and their 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 Notes and which information the Class A-1 Noteholder or such Affiliates will not disclose to the Issuer, the Collateral Manager, the Trustee or the holders of the Notes.

Purchase of Collateral Debt Securities and entry into CDS Agreement Transactions. The Issuer may purchase Collateral Debt Securities from CALYON only to the extent the Collateral Manager determines that such purchases are consistent with the investment guidelines and objectives of the Issuer, the restrictions contained in the Indenture and applicable law. In any event, all purchases of Collateral Debt Securities from CALYON will be at fair market value (determined at the time such Collateral Debt Security is originally acquired) and otherwise on an arm's-length basis. The price paid by the Issuer for the initial portfolio of Collateral Debt Securities purchased from CALYON on the Closing Date will not be based on the fair market value of such securities on the Closing Date. The initial portfolio of CDS Agreement Transactions which the Issuer will enter into with CALYON on the Closing Date will not be made on the terms (including the fixed rate which CALYON will pay to the Issuer) prevailing in the credit default swap market on the Closing Date.

If CALYON were to become the subject of a case or proceeding under the United States Bankruptcy Code or another applicable insolvency law, the trustee in bankruptcy or other liquidator could assert that Collateral Debt Securities acquired from CALYON are property of the insolvency estate of a third party. Property that CALYON has pledged or assigned, or in which CALYON has granted a security interest, as collateral security for the payment or performance of an obligation, would be property of the estate of CALYON. Property that CALYON has sold or absolutely assigned and transferred to another party, however, is not property of the estate of CALYON. The Issuer does not expect that the purchase by the Issuer of Collateral Debt Securities, under the circumstances contemplated by this Offering Memorandum, 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).

Relation to Prior Investment Results. The prior investment results of the Collateral Manager or its Affiliates or persons associated with the Collateral Manager or its Affiliates 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.

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

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, 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 the Class A-1 Note Purchase Agreement and 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 Collateral Manager, the Trustee, the Initial Purchasers, the Class A-1 Noteholder, the Credit Default Swap Counterparty, the 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 Collateral Manager, the Trustee, the Initial Purchasers, the Credit Default Swap Counterparty, the Class A-1 Noteholder, the Hedge Counterparty, any of their respective Affiliates, any other person has any obligation to update or otherwise revise any projections, including any revisions to reflect changes in economic conditions or other circumstances arising after the date hereof or to reflect the occurrence of unanticipated events, even if the underlying assumptions do not come to fruition.

Money Laundering Prevention. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA PATRIOT Act"), effective as of October 26, 2001, requires that financial institutions, a term that includes banks, broker-dealers and investment companies, establish and maintain compliance programs to guard against money laundering activities. The USA PATRIOT Act requires the Secretary of the U.S. Treasury ("Treasury") to prescribe regulations in connection with anti-money laundering policies of financial institutions. The Federal Reserve Board, the Treasury and the U.S. Securities and Exchange Commission (the "SEC") are currently studying what types of investment vehicles should 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. It is possible that there could be promulgated legislation or regulations that would require the Issuer, the Initial Purchasers or other service providers to the Issuer, in connection with the establishment of anti-money laundering procedures, to share information with governmental authorities with respect to investors in the Offered Securities. Such legislation and/or regulations could require the Issuer to implement

additional restrictions on the transfer of the Offered Securities. The Issuer reserves the right to request such information as is necessary to verify the identity of investors in the Offered 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 SEC. In the event of delay or failure by the applicant to produce any information required for verification purposes, an application for or transfer of Offered Securities and the subscription monies relating thereto may be refused.

Mandatory Repayment of the Notes. If a Ratings Confirmation Failure occurs, then funds that would otherwise be used (i) to make distributions in respect of the Preference Shares (after the payment of certain other amounts prior thereto) or (ii) if Interest Proceeds are not sufficient to obtain a Ratings Confirmation, to purchase Collateral Debt Securities, will be used in the manner set forth in a Proposed Plan or, if a Proposed Plan cannot be agreed upon, will be used to *first*, reduce the Remaining Unfunded Class A-1 Commitment Amount until the Remaining Unfunded Class A-1 Commitment Amount is reduced to zero by making a deposit to the Reserve Account and *second*, repay principal of one or more Classes of Notes sequentially in direct order of Seniority (after the payment of certain other amounts prior thereto) on the Distribution Date relating to the first Determination Date occurring thereafter to the extent necessary (applying *first*, Excess Reserve Account Assets, *then* Interest Proceeds and *then* Principal Proceeds, for such purpose) to obtain a Ratings Confirmation.

Furthermore, if on any Quarterly Distribution Date occurring prior to the end of the Reinvestment Period, the Preference Shareholders have received distributions equal to or exceeding the Target Return I, a portion of the remaining Interest Proceeds will be applied to pay principal, *pro rata*, of the Class D Notes, Class E Notes and Class F Notes in accordance with the Priority of Payments with respect to Interest Proceeds.

On any Distribution Date prior to the last day of the Reinvestment Period, the Collateral Manager (with the written consent of holders of a Majority-in-Interest of Preference Shares) may, if (i) the Collateral Manager (in its sole discretion) determines that investments in additional Collateral Debt Securities in the near future would either be impractical or not beneficial to the Issuer or (ii) the Deferred Notes Principal is greater than zero, direct the Trustee to apply all or any portion of Principal Proceeds that would otherwise be available for reinvestment in Collateral Debt Securities pursuant to paragraph (4) under the heading “Description of the Notes—Priority of Payments—Principal Proceeds”.

Any of 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 one or more Classes of Notes that are Subordinate to any other outstanding Class of Notes, which could adversely impact the returns of such holders, and Noteholders receiving payments of principal pursuant to any of the foregoing may not be able to reinvest such amounts in investments with a return greater than or equal to the Notes being redeemed. See “Description of the Notes—Principal”, “—Mandatory Redemption”, “—Priority of Payments—Interest Proceeds” and “—Priority of Payments—Principal Proceeds”.

Auction Call Redemption. If the Notes have not been (or will not be) redeemed in full prior to (or on) March 2015, then an auction of the Collateral Debt Securities will be conducted by the Trustee on behalf of the Issuer and the Issuer will request the Credit Default Swap Counterparty and each other Synthetic Security Counterparty to determine the termination payment that will be due to it or the Issuer if the CDS Agreement Transactions and Synthetic Securities are terminated and, *provided* that certain conditions are satisfied, the Collateral Debt Securities will be sold and the Notes will be redeemed. If such conditions are not satisfied and the auction is not successfully conducted prior to March 2015, the Trustee will conduct auctions on a monthly basis until the Notes are redeemed in full. See “Description of the Notes—Redemption Price” and “—Auction Call Redemption”. Each Hedge Agreement, the Swap Agreement and the Credit Default Swap Agreement will terminate upon any Auction Call Redemption.

Optional Redemption. Subject to certain conditions described under “Description of the Notes—Optional and Tax Redemption,” on any Distribution Date occurring on or after the Distribution Date occurring in March 2010, a Majority-in-Interest of Preference Shares may direct the Issuer to redeem the Notes in whole but not in part, in each case at the applicable Redemption Price therefor. See “Description of the Notes—Optional Redemption and Tax Redemption”. Each Hedge Agreement, the Swap Agreement and the Credit Default Swap Agreement will terminate upon any Optional Redemption.

Tax Redemption. Subject to satisfaction of certain conditions, upon the occurrence of a Tax Event, the Issuer may redeem the Notes, in whole but not in part, on a Distribution Date and only from (a) the Sale Proceeds of the Collateral and (b) all other funds in the Accounts (other than in any Hedge Counterparty Collateral Account, any Asset Hedge Account, any Synthetic Security Counterparty Account and any Issuer Collateral Account) on such Distribution Date, at the written direction of (i) holders of a Majority of any Affected Class or (ii) a Majority-in-Interest of Preference Shareholders, at the applicable Redemption Price. No Tax Redemption may be effected, however, unless (i) all Sale Proceeds under clause (a) above are used to make such Tax Redemption, (ii) funds under clauses (a) and (b) are sufficient to pay the Total Redemption Amount and (iii) the Tax Materiality Condition is satisfied. See “Description of the Notes—Optional Redemption and Tax Redemption”. Each Hedge Agreement, the Class A-1 Note Purchase Agreement, the Closing Date Swap and the Credit Default Swap Agreement will terminate upon any Tax Redemption.

Interest Rate Risk. The Notes bear interest at floating rates based on LIBOR. Some of the Collateral Debt Securities may bear interest at fixed rates or at floating rates based on LIBOR which resets on different dates or with different maturity dates. Accordingly, the Notes are subject to interest rate risk to the extent that there is an interest rate mismatch between the floating rate at which interest accrues on the Notes and the rates at which interest accrues on many of the Collateral Debt 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 Distribution Date. There is no requirement that Reserve Account Investments or Eligible Investments bear interest at LIBOR, and the interest rates available for Reserve Account Investments and Eligible Investments are inherently uncertain. As a result of these mismatches, an increase in one-month LIBOR could adversely impact the ability of the Issuer to make payments on the Notes (including by reason of a decline in the value of previously issued fixed rate Collateral Debt Securities as LIBOR increases).

The Notional Amount of any interest rate swap or cap outstanding under any Hedge Agreement may be reduced in connection with a reduction of the Remaining Unfunded Class A-1 Commitment Amount and redemption of the Notes on any Distribution Date. In the event of any such reduction, the Interest Rate Hedge Counterparty or the Issuer may be required to make a termination payment in respect of such reduction to the other party. See “Security for the Notes—The Hedge Agreements”.

Up-front Payment Under the Closing Date Swap Agreement. On the Closing Date, in order to provide an additional source of funds to pay closing fees and expenses and to allow for a reduction in the proceeds received on the Closing Date from issuance of the Preference Shares (see “The Co-Issuers—Capitalization”), the Issuer will receive an up-front payment of approximately U.S.\$35,000,000 pursuant to the Closing Date Swap Agreement (the “Up-front Payment”). In exchange for the Up-Front Payment, the Issuer will agree to make monthly payments to the Closing Date Swap Counterparty pursuant to the terms of the Closing Date Swap Agreement. Therefore, the funds available to pay interest on the Notes and distributions on the Preference Shares will be less on each Distribution Date than they would have been if the Up-front Payment had not been made. Moreover, in the event of an early termination of the Closing Date Swap Agreement, the Issuer will be required to make a termination payment to the Closing Date Swap Counterparty. However, the initial cash balance in the Reserve Account will be greater on the Closing Date than it would have been if the Up-front Payment was not paid.

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

The average life of each Class of Notes will be affected by the financial condition of the obligors on or issuers of the Collateral Debt Securities and the characteristics of the Collateral Debt Securities, including the existence and frequency of exercise of any prepayment, optional redemption or sinking fund features, the prevailing level of interest rates, the redemption price, the actual default rate and the actual level of recoveries on any Defaulted Securities, the frequency of tender or exchange offers for the Collateral Debt Securities and any sales of Collateral Debt Securities and any dividends or other distributions received in respect of Equity Securities, as well as the risks unique to investments in obligations of foreign issuers described above. See “Maturity, Prepayment and Yield Considerations” and “Security for the Notes”.

Distributions on the Preference Shares; Investment Term; Non-Petition Agreement. Prior to the payment in full of the Notes and all other amounts owing under the Indenture, Preference Shareholders will be entitled to receive

distributions from Interest Proceeds and Principal Proceeds released from the lien of the Indenture only to the extent permissible under the Indenture pursuant to the Priority of Payments set forth therein. The timing and amount of distributions payable to Preference Shareholders and the duration of the Preference Shareholders' investment in the Issuer therefor will be affected by the average life of the Notes. See "—Average Life of the Notes and Prepayment Considerations" above. Each Original Purchaser of Preference Shares will be required to covenant in a Subscription Agreement (and each transferee of Preference Shares will be required (or deemed, as the case may be) to covenant in a transfer certificate) that it will not cause the filing of a petition in bankruptcy against the Issuer before one year and one day have elapsed since the payment in full of the Notes or, if longer, the applicable preference period then in effect. 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.

Early Termination of the Reinvestment Period. Although the Reinvestment Period is expected to terminate on the Distribution Date occurring in March 2012, the Reinvestment Period may terminate prior to such date if (i) the Collateral Manager (with the written consent of holders of a Majority-in-Interest of Preference Shares) notifies the Trustee, the Credit Default Swap Counterparty, the Class A-1 Noteholder and each Hedge Counterparty that, in light of the composition of Collateral Debt Securities, general market conditions and other factors, the Collateral Manager (in its sole discretion) has determined that investments in additional Collateral Debt Securities within the foreseeable future would either be impractical or not beneficial, (ii) the Notes are redeemed as described below under "Description of the Notes—Optional Redemption and Tax Redemption", (iii) an Event of Default occurs or (iv) the AAA/Aaa Coverage Ratio is less than 112% as of any Determination Date. In addition, on each Distribution Date prior to the last day of the Reinvestment Period, the Collateral Manager may apply Principal Proceeds that would otherwise be retained in the Principal Collection Account to be invested in additional Collateral Debt Securities during the next succeeding Due Period to the redemption of the Notes in order of Seniority. If the Reinvestment Period terminates prior to the Distribution Date occurring in March 2012, such early termination may affect the expected average lives of the Notes and the duration of the Preference Shares described under "Maturity, Prepayment and Yield Considerations".

Dependence on Key Personnel. Because the composition of the Collateral Debt Securities will vary over time, the performance of the Collateral Debt Securities depends heavily on the skills of the Collateral Manager in analyzing, selecting and managing 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 its officers to whom the task of managing the Collateral has been assigned. There can be no assurance that any particular individual will remain employed by the Collateral Manager or any of its Affiliates. The loss of certain individuals currently employed by the Collateral Manager and its Affiliates could have a material adverse effect on the performance of the Collateral Manager with respect to the Issuer and the Offered Securities. See "The Collateral Management Agreement" and "The Collateral Manager".

Changes in Tax Law; No Gross-Up in Respect of Offered Securities. Although no withholding tax is currently imposed on the payments of interest on or principal of the Notes or on the distributions on the Preference Shares, there can be no assurance that, as a result of any change in any applicable law, treaty, rule, regulation, or interpretation thereof, the payments on the Offered Securities would not in the future become subject to withholding taxes. In the event that any withholding tax is imposed on payments of interest or other payments on any Offered Securities, no "gross-up" payments or additional amounts will be paid to the Holders of the Offered Securities.

Changes in Tax Law; No Gross-Up in Respect of Collateral Debt Securities. Under the Investment Criteria, a Collateral Debt Security will be eligible for purchase by the Issuer if, at the time it is purchased, either the payments thereon are not subject to U.S. withholding tax or foreign withholding tax or the issuer thereof (and the guarantor, if any) is required to make "gross-up" payments that cover the full amount of any such withholding taxes. However, there can be no assurance that, as a result of any change in any applicable law, treaty, rule, regulation or interpretation thereof, the payments on the Collateral Debt Securities would not in the future become subject to withholding taxes imposed by the United States or another jurisdiction. In that event, if the obligors of such Collateral Debt Securities were not then required to make "gross-up" payments that cover the full amount of any such withholding taxes, the amounts available to make payments on the Offered Securities would accordingly be reduced. There can be no assurance that remaining payments on the Collateral Debt Securities would be sufficient

to make timely payments of interest on and payment of principal at the maturity of each Class of Notes or that there would be amounts available to pay dividends and make other distributions on the Preference Shares. In the event the imposition of any such tax at any time after the Closing Date (including during the Reinvestment Period) results in the occurrence of a Tax Materiality Condition, Holders of a Majority of any Affected Class of Notes or a Majority—in-Interest of Preference Shares will be entitled to require a redemption of the Notes in full. See “Description of the Securities—Optional Redemption and Tax Redemption.”

Taxes on the Issuer. The Issuer expects to conduct its affairs so that its income generally will not be subject to tax on a net income basis in the United States or any other jurisdiction. The Issuer also expects that payments it receives generally will not be subject to withholding taxes imposed by the United States or other countries that may be treated as the source of the payments. The Issuer’s income might become subject to net income or withholding taxes in the United States or other jurisdictions, however, due to unanticipated circumstances, change in law, contrary positions of relevant taxing authorities or other causes. Payments with respect to any equity securities likely will be subject to withholding taxes imposed by the United States or other countries from which such payments are sourced. Under current U.S. federal income tax law, the treatment of Synthetic Securities in the form of credit default swaps (including those with “pay-as-you-go” features) is unclear. Certain possible tax characterizations of a credit default swap, if adopted by the U.S. Internal Revenue Service and if applied to Synthetic Securities to which the Issuer is a party, could subject payments received by the Issuer under such Synthetic Securities to U.S. tax. The imposition of unanticipated net income or withholding taxes could materially impair the Issuer’s ability to make payments on the Notes.

Certain Tax Considerations for the Holders of the Preference Shares. The Preference Shares will be treated as equity (and not debt) of the Issuer for U.S. federal income tax purposes. See “U.S. Federal Income Tax Considerations—Treatment of U.S. Holders of the Preference Shares.”

Because the Issuer will be a passive foreign investment company for U.S. federal income tax purposes, a U.S. person holding Preference Shares may be required to report any gain on the disposition as ordinary income, rather than capital gain, and to compute the tax liability on such gain and any “Excess Distribution” (as defined below) received in respect of the Preference Shares as if such items had been earned ratably over each day in the U.S. Holder’s holding period (or a certain portion thereof) for the Preference Shares unless it elects to treat the Issuer as a qualified electing fund (“QEF”) and to recognize currently its proportionate share of the Issuer’s income. If the assets of the Issuer are not sufficient to repay the Holders of the Preference Shares in full, such Holders will recognize a loss on their investment for U.S. federal income tax purposes, which loss may not be available to offset income previously recognized by such Holder in respect of their investments in Preference Shares. In addition, in the event any portion of a given Class of Notes is not ultimately paid upon maturity, the Issuer may recognize cancellation of indebtedness income without any corresponding offsetting losses (due to tax character differences or otherwise), in which case such Holders also may have additional “phantom income.” The Issuer also may be a controlled foreign corporation, in which case U.S. persons holding Preference Shares could be subjected to different tax treatments. See “Tax Considerations—U.S. Federal Income Tax Considerations.”

U.S. Federal Income Tax Considerations. Prospective investors should review the material with respect to the U.S. federal income tax treatment of the Securities set forth under “Certain U.S. Federal Income Tax Considerations.”

Certain ERISA Considerations. The Issuer intends to restrict ownership of the Preference Shares so that no assets of the Issuer will be deemed to be “plan assets” subject to ERISA and/or Section 4975 of the Code as such term is defined in the Plan Asset Regulation issued by the United States Department of Labor. Accordingly, the Preference Shares will be subject to the restrictions described in “Transfer Restrictions” and “Certain ERISA Considerations.” Any Preference Shares held by Benefit Plan Investors or Controlling Persons must be held in the form of Restricted Preference Shares. Any purported transfer of a Regulation S Preference Share to a Benefit Plan Investor or a Controlling Person will be void *ab initio*. However, there can be no assurance that these restrictions will be effective.

If the assets of either of the Co-Issuers were deemed to be “plan assets”, certain transactions that the Issuer might enter into, or may have entered into, in the ordinary course of business might constitute non-exempt prohibited transactions under ERISA and/or Section 4975 of the Code and might have to be rescinded.

Each Original Purchaser and each transferee of an Offered Note will be required to certify (or, in certain circumstances, deemed to represent and warrant) either that (a) it is not (and, for so long as it holds any such Note, will not be), and is not (and, for so long as it holds any such Note or any interest therein, will not be) acting on behalf of an employee benefit plan subject to Title I of ERISA, a plan subject to Section 4975 of the Code, an entity which is deemed to hold plan assets of any such plan pursuant to 29 CFR Section 2510.3-101 or otherwise or a governmental or church plan subject to any Similar Law or (b) its purchase and ownership of such Note will be covered by a prohibited transaction class exemption issued by the United States Department of Labor or a statutory exemption (or, in the case of a governmental or church plan, will not result in a non-exempt violation of any Similar Law). Each Original Purchaser of a Regulation S Global Preference Share will be required to represent and warrant, and each transferee of a Regulation S Global Preference Share will be required to represent and warrant (or in certain circumstances will be deemed to represent and warrant) that it is not, and is not acting on behalf of, a Benefit Plan Investor (including, for this purpose the general account of an insurance company any of the underlying assets of which constitute “plan assets” under Section 401(c) of ERISA or a wholly-owned subsidiary thereof) or a Controlling Person. Although each such owner will be required to indemnify the Issuer for the consequences of any breach of such obligations, there is no assurance that an owner will not breach such obligations or that, if any such breach occurs, such owner will have the financial capacity and willingness to indemnify the Issuer for any losses that the Issuer may suffer, including non-compliance with the restriction on transfers to Benefit Plan Investors.

Each Original Purchaser of a Regulation S Preference Share will be required to execute a letter in the form attached as an exhibit to the Preference Share Paying Agency Agreement.

See “Certain ERISA Considerations” herein for a more detailed discussion of certain ERISA and related considerations with respect to an investment in the Offered Securities.

German Investment Tax Act. Investors who are resident in Germany for German tax purposes, investors holding Offered Securities through a German permanent establishment (or a permanent representative) and investors presenting Offered Securities at the office of a German credit institution or financial services institution (each as defined in the German Banking Act (*Kreditwesengesetz*)) may be subject to the German Investment Tax Act (*Investmentsteuergesetz*). According to a tax decree on the interpretation of the Investment Tax Act issued by the Federal Ministry of Finance (*Bundesfinanzministerium – BMF*) on June 2, 2005 CDO vehicles shall not qualify as foreign investment funds within the meaning of the Investment Tax Act if, according to the contractual terms, save for the replacement of collateral obligations for the purpose of securing the volume, the duration and the risk structure of the portfolio, no more than 20% of the assets of the Issuer may be freely traded *per annum*, regardless of the class of securities held in such vehicle. If this exemption applied to the Issuer, the Offered Securities would not fall under the scope of the Investment Tax Act. However, it is currently not clear whether the exemption will apply.

In case the exemption mentioned above does not apply and therefore the Issuer qualifies as a foreign investment fund, the more junior a class of securities is the higher is the risk that the Investment Tax Act will apply and the Investment Tax Act will very likely apply to the Preference Shares.

Investors being subject to the Investment Tax Act could be subject to adverse lump-sum taxation provisions in which case the higher of (i) 70% of the annual increase in the market price of the respective Offered Securities *plus* distributions on the respective Offered Securities and (ii) 6% of the market price at the end of every calendar year would be taxable and could also be subject to withholding tax.

Furthermore, investors subject to the Investment Tax Act may, upon redemption or sale of the Offered Securities, be subject to a special lump sum taxation, *i.e.* 6% of the consideration for the redemption or disposal of the Offered Securities may be treated as taxable deemed interim profits which may also be subject to German withholding tax.

Prospective investors in the Offered Securities are urged to seek independent tax advice and to consult their professional advisers as to the legal and tax consequences that may arise from the application of the Investment Tax Act to the Offered Securities and none of the Issuer, the Co-Issuer, the Trustee, the Initial Purchasers and the Collateral Manager and their respective Affiliates accept any responsibility in respect of the German tax position of the Offered Securities or the holders of the Offered Securities.

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

Potential Requirements for Listing the Securities on the Cayman Stock Exchange. Application will be made to list the Offered Securities on the Cayman Stock Exchange which obtained UK Inland Revenue recognized stock exchange status and was granted affiliate membership of the International Organization of Securities Commissions. The Indenture will not require the Issuer to maintain a listing for any Class of Securities on the Cayman Stock Exchange if the Cayman Stock Exchange or the Cayman Islands adopts prospectus directives or requirements compliance with which the Collateral Manager determines (in its sole discretion) to be unduly burdensome.

DESCRIPTION OF THE NOTES

The Notes will be issued by the Co-Issuers pursuant to the Indenture and secured by the Collateral granted to the Trustee thereby. The Class A-1 Notes will also be governed by the terms of the Class A-1 Note Purchase Agreement. The following summary describes certain provisions pertaining to the Notes, the Indenture and the Class A-1 Note Purchase 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 Notes and the Indenture. Copies of the Indenture and Class A-1 Note Purchase Agreement may be obtained by prospective purchasers of the Offered Securities upon request in writing to the Trustee at LaSalle Bank National Association, 181 West Madison Street, 32nd Floor, Chicago, Illinois 60602, Attention: CDO Trust Services Group – Volans Funding 2007-1, Ltd.

Status and Security

The Notes will be limited-recourse debt obligations of the Co-Issuers secured by the Collateral. The holders of the Notes of each Class will be entitled to receive payments *pari passu* among themselves. Except as otherwise described in the Priority of Payments with respect to Interest Proceeds, the relative order of Seniority of payment of each Class of Notes is as follows: *first*, Class A-1 Notes (including the Class A-1 Commitment Fee), *second*, Class A-2 Notes, *third*, Class B Notes, *fourth*, Class C Notes, *fifth*, Class D Notes, *sixth*, Class E Notes and *seventh*, Class F Notes with (a) each Class of Notes in such list being “Senior” or in “Seniority” to each other Class of Notes that follows such Class of Notes in such list and (b) each Class of Notes in such list being “Subordinate” to each other Class of Notes that precedes such Class of Notes in such list. No payment of interest on any Class of Notes will be made until all accrued and unpaid interest on the Notes of each Class that is Senior to such Class and that remain outstanding have been paid in full.

With respect to Principal Proceeds, the relative order of Seniority of payment of each Class of Notes is as follows: *first*, Class A-1 Notes, *second*, Class A-2 Notes, *third*, Class B Notes, *fourth*, Class C Notes, *fifth*, Class D Notes, *sixth*, Class E Notes and *seventh*, Class F Notes, except that after the end of the Reinvestment Period, Principal Proceeds will, so long as the Pro Rata Payment Conditions are satisfied as of the related Determination Date, be applied on each Monthly Distribution Date as set forth in the Priority of Payments.

After the end of the Reinvestment Period Principal Proceeds will, so long as the Pro Rata Payment Conditions are satisfied as of the related Determination Date, be applied on each Distribution Date to *first*, the payment of the amounts referred to in paragraphs (8), (10), (12) and (14) under “Priority of Payments—Interest Proceeds”, in the same order of priority specified therein, *second*, to the payment of principal of the Notes, *pro rata* in accordance with the respective outstanding aggregate principal amounts of the Notes, in an amount equal to the Deferred Notes Principal on the related Determination Date, *third*, the payment of principal of the Notes, *pro rata* in accordance with the respective outstanding aggregate principal amounts of the Notes, including any Deferred Interest, in an amount equal to the Note Reduction Amount and *fourth*, reduce the Remaining Unfunded Class A-1 Commitment Amount until the Remaining Unfunded Class A-1 Commitment Amount is reduced to zero by making a deposit to the Reserve Account.

If a Ratings Confirmation Failure occurs and a Proposed Plan cannot be agreed to by the Collateral Manager, on behalf of the Issuer, the Rating Agencies, the Credit Default Swap Counterparty and the Class A-1 Noteholder, the Issuer will be required to apply on the Distribution Date relating to the first Determination Date occurring thereafter *first*, Excess Reserve Account Assets, *second*, Interest Proceeds and *third*, Principal Proceeds to *first*, the reduction of the Remaining Unfunded Class A-1 Commitment Amount until the Remaining Unfunded Class A-1 Commitment Amount is reduced to zero by making a deposit to the Reserve Account and *second*, the repayment of the Notes, sequentially in direct order of Seniority, in accordance with the Priority of Payments and as and to the extent necessary to obtain a Ratings Confirmation.

Under the terms of the Indenture, the Issuer will grant to the Trustee for the benefit of the Secured Parties a security interest in the Collateral described herein to secure the Issuer’s obligations under the Indenture and the Notes, which security interest will be perfected and senior to the claims of other creditors of the Issuer as set forth in the Indenture.

Payments of principal of and interest (and, in the case of the Class A-1 Notes, the Commitment Fee) on the Notes will be made solely from the proceeds of the Collateral, in accordance with the priorities described under “— Priority of Payments” herein. If the amounts received in respect of the Collateral (net of certain expenses) are insufficient to make payments on the Notes, no other assets will be available for payment of the deficiency and, following liquidation of all the Collateral, the obligations of the Co-Issuers to pay any such deficiency will be extinguished.

Interest

Upon funding of the Class A-1 Notes, such funded portion of the Class A-1 Notes (based on the average daily balance on each day in the applicable Interest Period) will cease accruing the Class A-1 Commitment Fee and will bear interest at a floating rate *per annum* equal to one-month LIBOR *plus* 0.24%. The Remaining Unfunded Class A-1 Commitment Amount will accrue the Class A-1 Commitment Fee (based on the average daily balance on each day in the applicable Interest Period) at a fixed rate *per annum* equal to 0.15%.

The Class A-2 Notes will bear interest at a floating rate *per annum* equal to one-month LIBOR *plus* 0.50%.

The Class B Notes will bear interest at a floating rate *per annum* equal to one-month LIBOR *plus* 0.65%.

The Class C Notes will bear interest at a floating rate *per annum* equal to one-month LIBOR *plus* 2.75%.

The Class D Notes will bear interest at a floating rate *per annum* equal to one-month LIBOR *plus* 7.00%.

The Class E Notes will bear interest at a floating rate *per annum* equal to one-month LIBOR *plus* 9.00%.

The Class F Notes will bear interest at a floating rate *per annum* equal to one-month LIBOR *plus* 0.00%.

Interest and Commitment Fee on the Notes will be computed on the basis of a 360-day year and the actual number of days elapsed.

Interest will accrue on the outstanding principal amount of each Class of Term 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) from the Closing Date until such Notes are paid in full. Interest accruing on the Term Notes for any Interest Period will accrue for the period from and including the first day of such Interest Period to but excluding the last day of such Interest Period. With respect to the initial Interest Period for any funded Class A-1 Notes, interest will begin to accrue for such Interest Period from and including the day on which such Class A-1 Notes were funded.

Payments of interest (and, in the case of the Class A-1 Notes, the Commitment Fee) on the Notes will be payable in U.S. Dollars in arrears on each Monthly Distribution Date, beginning in April 2007 through and including the final Distribution Date which will be the Stated Maturity or such earlier date upon which the Notes and Preference Shares are redeemed. If any such Monthly Distribution Date is not a Business Day, the relevant Monthly Distribution Date will be the next succeeding Business Day.

So long as any more Senior Class of Notes is outstanding, the failure on any Monthly Distribution Date to make payments in respect of interest on the Class C Notes, the Class D Notes, the Class E Notes or the Class F Notes by reason of the operation of the Priority of Payments will not constitute an Event of Default under the Indenture. Any interest on the Class C Notes, the Class D Notes, the Class E Notes or the Class F Notes that is not paid when due by operation of the Priority of Payments will not be considered “due and payable” and instead will be deferred (such interest being referred to herein as “Class C Deferred Interest”, “Class D Deferred Interest”, “Class E Deferred Interest” or “Class F Deferred Interest”, as applicable, and collectively as, “Deferred Interest”). Any Deferred Interest will not be added to the Aggregate Outstanding Amount of the related Class of Notes but interest will accrue on such Deferred Interest at the rate applicable to the related Class of Notes until such Deferred Interest is paid in full.

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 the 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.

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

(i) LIBOR for any Interest Period will equal the offered rate, as determined by the Calculation Agent, for Dollar deposits in London of a one month tenor 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 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.

(ii) 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), the Calculation Agent will determine the arithmetic mean of the offered quotations of the Reference Banks to prime banks in the London interbank market for Dollar deposits in London of a one month tenor (except that in the case where such Interest Period will 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 will equal such arithmetic mean. If, on any LIBOR Determination Date, fewer than two Reference Banks provide such quotations, LIBOR will 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 Dollar deposits for the term of such Interest Period (except that in the case where such Interest Period will 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.

(iii) In respect of any Interest Period having a Designated Maturity other than a one month tenor, LIBOR will be determined through the use of straight-line interpolation by reference to two rates calculated in accordance with clauses (i) and (ii) above, one of which will be determined as if the maturity of the 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 will 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 will be determined by reference to a rate calculated in accordance with clauses (i) and (ii) above as if the maturity of the Dollar deposits referred to therein were a period of time equal to seven days.

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

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

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

As used herein:

“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 as its base rate, prime rate, reference rate or similar rate for Dollar loans. Changes in the Base Rate will take effect simultaneously with each change in the underlying rate.

“Base Rate Reference Bank” means LaSalle Bank National Association, or if such bank ceases to exist or is not quoting a base rate, prime rate reference rate or similar rate for Dollar loans, such other major money center commercial bank in New York City, as selected by the Calculation Agent.

“Designated Maturity” means, with respect to any 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 Monthly Distribution Date and (ii) for each Interest Period after the first Interest Period, one month.

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

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

“Reference Banks” means four major banks in the London interbank market, selected by the Calculation Agent.

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

For so long as any Note remains outstanding, the Co-Issuers will at all times maintain an agent appointed to calculate LIBOR in respect of each Interest Period. As soon as possible after 11:00 a.m. (London time) on each LIBOR Determination Date, but in no event later than 11:00 a.m. (New York time) on the Business Day immediately following each LIBOR Determination Date, the Calculation Agent will calculate the interest rate for the Notes for the related Interest Period and the amount of interest for such Interest Period payable in respect of each Class of Notes (in each case rounded to the nearest cent, with half a cent being rounded upward) on the related Distribution Date and will communicate such rates and amounts and the related Distribution Date to the Co-Issuers, the Trustee, each Paying Agent (other than the Preference Share Paying Agent), Euroclear, Clearstream, Luxembourg.

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

The Class A-1 Note Purchase Agreement

The following description consists of a summary of certain provisions of the Class A-1 Note Purchase Agreement. This summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the Class A-1 Note Purchase Agreement.

Commitment Fee

A commitment fee on the Class A-1 Notes will accrue at a *per annum* rate of 0.15% on the Remaining Unfunded Class A-1 Commitment Amount (based on the average daily balance on each day in the applicable Interest Period) for each day from and including the Closing Date until the date that the Remaining Unfunded Class A-1 Commitment Amount is reduced to zero and the Issuer is not permitted under the Class A-1 Note Purchase

Agreement to request any further borrowing on the Class A-1 Notes (the “Class A-1 Commitment Fee”). The Class A-1 Commitment Fee will be payable monthly in arrears on each Monthly Distribution Date and will rank pari passu with the payment of interest on the Class A-1 Notes. The Class A-1 Commitment Fee will be computed on the basis of a 360-day year and the actual number of days elapsed.

No Class of Notes other than the Class A-1 Notes will be entitled to a commitment fee.

Drawdowns and Repayment of Class A-1 Notes

The Class A-1 Notes will be issued on the Closing Date and funded from time to time until the earliest to occur of (a) the Stated Maturity of the Class A-1 Notes, (b) the first date occurring after the end of the Reinvestment Period on which the Aggregate Outstanding Amount of all of the Class A-1 Notes has been reduced to zero and the Remaining Unfunded Class A-1 Commitment Amount has been reduced to zero, (c) the Redemption Date and (d) the occurrence of any Event of Default under the Class A-1 Note Purchase Agreement that is not cured or waived, pursuant to the terms thereof (the “Commitment Termination Date”). Pursuant to a Class A-1 Note Purchase Agreement dated as of the Closing Date (the “Class A-1 Note Purchase Agreement”) between the Issuer, the Co-Issuer, CALYON, as purchaser of the Class A-1 Notes and LaSalle Bank National Association, as the Class A-1 Note Agent (the “Class A-1 Note Agent”), the Class A-1 Noteholder will make advances to the Issuer on the Class A-1 Note upon written request by the Issuer for such advance within one Business Day of such written request and subject to compliance with certain conditions set forth in the Class A-1 Note Purchase Agreement, *provided* that the maximum aggregate principal amount of the Class A-1 Notes will at no time exceed U.S.\$770,000,000. The Issuer will not borrow any amounts under the Class A-1 Notes on the Closing Date.

Prior to the Commitment Termination Date, the Issuer will have the right, pursuant to the Class A-1 Notes Purchase Agreement, to draw funds under the Class A-1 Notes to:

(a) make Credit Protection Payments to the Credit Default Swap Counterparty under the Credit Default Swap Agreement as required under the Indenture (such payment, a “Class A-1 Credit Protection Payment”); and

(b) fund termination payments to the Credit Default Swap Counterparty pursuant to the Indenture (such payment, a “Class A-1 CDS Termination Payment”);

(each Class A-1 Credit Protection Payment and Class A-1 CDS Termination Payment made by the Class A-1 Noteholder to the Issuer pursuant to clauses (a) and (b) above, a “Class A-1 Permitted Use Payment”).

Holders of the Class A-1 Notes will be required to maintain certain credit ratings with respect to their respective long-term and short-term unsecured debt obligations. If any Holder of a Class A-1 Note fails to satisfy such rating requirements or fails to perform certain of its funding obligations under the Class A-1 Note Purchase Agreement, such Holder will, pursuant to the Class A-1 Note Purchase Agreement, promptly give notice of such fact to the Issuer, the Trustee, the Collateral Manager and each Rating Agency, (ii) such Holder will transfer all of its rights and obligations under the Class A-1 Note Purchase Agreement in respect of its Class A-1 Notes and its commitment to fund borrowing requests thereunder to a person who meets the ratings requirements under the Class A-1 Note Purchase Agreement, failing which, notwithstanding the limitation described in the above paragraph, the Issuer will request a borrowing in an amount up to the total unfunded Commitment Amount in respect of such Class A-1 Noteholder. Following receipt of such a request, such Class A-1 Noteholder will be required to deposit Eligible Investments equal to the entire amount of its outstanding Commitment Amount to the Issuer at such time in a securities account. Such Class A-1 Noteholder will be entitled to interest earnings on such Eligible Investments but no interest or Commitment Fee will accrue in respect of the Class A-1 Notes held by such Class A-1 Noteholder until such time as the Class A-1 Noteholder satisfies the ratings requirements or cures such failure to perform (if such failure is capable of being cured).

Principal

The Stated Maturity of each Class of Notes is the Distribution Date occurring in March 2052 or, if such date is not a Business Day, the next following Business Day. Each Class of Notes is scheduled to mature at the Stated Maturity unless redeemed or repaid prior thereto. The Notes may be paid in full prior to the 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 a Mandatory Redemption, Optional Redemption, Auction Call Redemption, Tax Redemption or Clean-Up Call Redemption) will be made by the Trustee on a *pro rata* basis on each Distribution Date among the Notes of such Class according to the respective unpaid principal amounts thereof outstanding immediately prior to such payment.

Payments of principal may be made on the Notes during the Reinvestment Period only in the following circumstances (subject, except in the case of clause (c), to the Priority of Payments): (a) in the event of a Ratings Confirmation Failure, (b) in connection with an Optional Redemption, (c) in connection with a Tax Redemption, (d) in the case of the Class D Notes, the Class E Notes and the Class F Notes, if the Preference Shareholders have received at least the Target Return I on the relevant Distribution Date, in which case a portion of the remaining Interest Proceeds will be applied to pay principal, *pro rata*, of the Class D Notes, the Class E Notes and the Class F Notes in accordance with paragraph (21) under the heading “Description of the Notes—Priority of Payments—Interest Proceeds” and (e) if the Collateral Manager directs the Trustee to apply Principal Proceeds to redeem Notes in accordance with paragraph (4) under the heading “Description of the Notes—Priority of Payments—Principal Proceeds”. After the Reinvestment Period, Principal Proceeds will be applied on each Distribution Date in accordance with the Priority of Payments to permanently reduce the Remaining Unfunded Class A-1 Commitment Amount and pay principal of each Class of Notes.

Mandatory Redemption

The Issuer will notify each Rating Agency, the Trustee, the Class A-1 Noteholder and each Hedge Counterparty in writing, including by email, (each such notice a “Ramp-Up Notice”) of the occurrence of the date (such date, the “Ramp-Up Completion Date”), that is the earlier of (a) the Distribution Date occurring in June 2007 and (b) the first day on which the aggregate par amount of the Collateral Debt Securities and aggregate Notional Amount of Synthetic Securities (whether through CDS Agreement Transactions or otherwise) held or committed to be purchased by the Issuer *plus* any Principal Proceeds received in respect of any such Collateral Debt Securities *plus* the Excess Notional Amount Liquidity, if any, is at least equal to U.S.\$1,100,000,000 (the “Required Ramp-Up Amount”) within 35 days after the Ramp-Up Completion Date occurs.

Upon receipt of notice from any Rating Agency on or after the Ramp-Up Completion Date that such Rating Agency will not confirm the ratings assigned to each Class of Notes on the Closing Date, the Collateral Manager on behalf of the Issuer expects to consult with the applicable Rating Agency and propose a plan of action that, upon completion, is intended to cause the applicable Rating Agency to confirm the ratings assigned to each Class of Note on the Closing Date. Notwithstanding the immediately preceding sentence, if either (i) Fitch downgrades any Class of Notes prior to the date 35 days after the delivery of the Ramp-Up Notice or (ii) Standard & Poor’s or Moody’s has provided written instruction that it will not confirm the credit estimate or ratings, as applicable, assigned by it with respect to any Class of Notes to the Trustee prior to the date 35 days after the delivery of the Ramp-Up Notice, a “Ratings Confirmation Failure” will occur. In the event of a Ratings Confirmation Failure, then the Collateral Manager, on behalf of the Issuer, expects to propose to the Rating Agencies, the Credit Default Swap Counterparty and the Class A—1 Noteholders its plan intended for meeting the Rating Agencies’ requirements to obtain a Ratings Confirmation; otherwise, the Issuer will be required on the Distribution Date relating to the first Determination Date occurring thereafter to apply *first*, Excess Reserve Account Assets, *second*, Interest Proceeds and *third*, Principal Proceeds to *first*, the reduction of the Remaining Unfunded Class A-1 Commitment Amount by making a deposit to the Reserve Account and *second*, the repayment of the Notes, sequentially in direct order of Seniority, in accordance with the Priority of Payments and as and to the extent necessary to obtain a Ratings Confirmation (and, pending such Ratings Confirmation on such Distribution Date, each subsequent purchase of any Collateral Debt Security will be subject to the satisfaction of the Rating Condition).

After the Reinvestment Period, as long as the Pro Rata Payment Conditions are satisfied as of the related Determination Date, Principal Proceeds will be applied in accordance with the Priority of Payments to, *first*, the payment of the amounts referred to in paragraphs (8), (10), (12) and (14) under “Priority of Payments—Interest Proceeds”, in the same order of priority specified therein, *second*, to the payment of principal of the Notes, *pro rata* in accordance with the respective outstanding aggregate principal amounts of the Notes, in an amount equal to the Deferred Notes Principal on the related Determination Date, *third*, the payment of principal of the Notes, *pro rata* in

accordance with the respective outstanding aggregate principal amounts of such Notes, including any Deferred Interest, in an amount equal to the Note Reduction Amount and *fourth*, reduce the Remaining Unfunded Class A-1 Commitment Amount until the Remaining Unfunded Class A-1 Commitment Amount is reduced to zero by making a deposit to the Reserve Account.

On any Distribution Date prior to the last day of the Reinvestment Period, the Collateral Manager may (by notice to the Trustee by the Determination Date), if (i) the Collateral Manager (in its sole discretion) determines that investments in additional Collateral Debt Securities in the near future would either be impractical or not beneficial to the Issuer or (ii) the Deferred Notes Principal is greater than zero, direct the Trustee to apply all or any portion of Principal Proceeds that would otherwise be available for reinvestment in Collateral Debt Securities pursuant to paragraph (4) under the heading “Description of the Notes—Priority of Payments—Principal Proceeds” (i) if the Pro Rata Payment Conditions are satisfied as of the related Determination Date, *first*, the payment of the amounts referred to in paragraphs (8), (10), (12) and (14) under “Priority of Payments—Interest Proceeds”, in the same order of priority specified therein, *second*, to payment of principal of the Notes, *pro rata*, in an amount equal to the Deferred Notes Principal on the related Determination Date, *third*, to the payment of principal of the Notes, *pro rata*, including any Deferred Interest, in an amount equal to the Note Reduction Amount for the related Due Period, *fourth*, to make a deposit into the Reserve Account or (ii) if the Pro Rata Payment Conditions are not satisfied as of the related Determination Date, *first*, a deposit into the Reserve Account, until the Remaining Unfunded Class A-1 Commitment Amount has been reduced to zero and *second*, the payment of principal of the Notes, sequentially in direct order of Seniority.

Auction Call Redemption

An auction call redemption (an “Auction Call Redemption”) may be conducted by the Trustee on behalf of the Issuer on Distribution Dates falling on or after the Distribution Date in March 2015 (the “First Auction Call Date”). Commencing with the First Auction Call Date, no Auction Call Redemption may occur unless the proceeds from such auction (the “Auction”) are sufficient to pay the Auction Call Redemption Amount *plus* for any Auction Call Redemption occurring (i) on or prior to the Distribution Date occurring in March 2017, an internal rate of return on the proceeds of issuance of the Preference Shares of at least 8% (taking into account any prior distributions paid to the Preference Shareholders) and (ii) after the Distribution Date occurring in March 2017 and on or prior to the Distribution Date occurring in March 2019, an internal rate of return on the proceeds of issuance of the Preference Shares of at least 4% (taking into account any prior distributions paid to the Preference Shareholders). In addition, if the Notes have not been (or will not be) redeemed in full on or prior to March 2015, then the Trustee will, at the expense of the Issuer, conduct an Auction of the Collateral Debt Securities. The Auction will be conducted no later than ten Business Days prior to (1) March 2015 and (2) if the Notes are not redeemed in full on the related Distribution Date, each Distribution Date thereafter until the Notes have been redeemed in full (each such date, a “Subsequent Auction Call Date” and, together with the First Auction Call Date, an “Auction Call Date”). Notwithstanding the foregoing, the Trustee will not conduct an Auction on an Auction Call Date if an Auction was conducted on the preceding Auction Call Date and the Collateral Manager notifies the Trustee that, due to market conditions, an Auction on such Auction Call Date is unlikely to be successful. Any of the Collateral Manager, the Preference Shareholders, the Credit Default Swap Counterparty, the Trustee or their respective Affiliates may, but will not be required to, bid at the Auction. The Trustee will sell, terminate or otherwise liquidate the Collateral Debt Securities and, in the case of Collateral Debt Securities that are not Synthetic Securities, transfer such Collateral Debt Securities (which may be divided into up to eight subpools) to the highest bidder therefor (or to 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 firm bids for such Collateral Debt Securities (or for each of the related subpools) from at least two prospective purchasers (including the winning bidder) identified on a list of qualified bidders, which may include the Collateral Manager and any of its Affiliates (such bidders, “Qualified Bidders”) for (x) the purchase of such Collateral Debt Securities or (y) the purchase of each subpool; and

(B) the highest bidder(s) enter(s) into a written agreement with the Issuer in a form provided by the Collateral Manager (which the Issuer will execute if the conditions set forth above and in the Indenture are satisfied, which execution will constitute certification by the Issuer that such conditions have been satisfied) that obligates such highest bidders (or the highest bidder for each subpool) to purchase all such Collateral Debt Securities (or the relevant subpool) and provides for payment in full (in cash) of the purchase price to the Trustee on or prior to the fifth Business Day preceding the next Distribution Date;

(iii) with respect to each Synthetic Security, the Issuer (or the Collateral Manager on behalf of the Issuer) will request that the calculation agent under such Synthetic Security determine the net termination payment payable by or to the Issuer on the date six Business Days prior to the termination date of the relevant Synthetic Security and will notify the Trustee of such amount and, in the case of a Defeased Synthetic Security, the Trustee will 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 payment; and

(iv) the Collateral Manager certifies to the Trustee 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 payments that would be payable to the Issuer by Synthetic Security Counterparties (including, if applicable, the Credit Default Swap Counterparty) as determined pursuant to clause (iii) above *minus* (III) the excess (if any) of (A) the aggregate net termination payments that would be payable under Defeased Synthetic Securities by the Issuer to Synthetic Security Counterparties as determined pursuant to clause (iii) above over (B) the balance of all Eligible Investments standing to the credit of the Synthetic Security Counterparty Accounts *plus* (IV) the balance of all Reserve Account Investments and all Eligible Investments and cash held by the Issuer (other than in any Hedge Counterparty Collateral Account, any Asset Hedge Account, any Synthetic Security Counterparty Account and any Issuer Collateral Account) *plus* (V) the aggregate amount (if any) that will be released from the Synthetic Security Counterparty Accounts following payment of the net termination payments described in the foregoing clauses (II) and (III) (the resulting amount of the preceding clauses (I), (II), (III), (IV) and (V), the “End Value”) will be at least equal to the sum of (x) the Total Redemption Amount and (y) the amount of any accrued and unpaid Subordinate Collateral Management Fee and any interest accrued thereon (such sum, the “Auction Call Redemption Amount”); *provided* that Holders of at least 66-2/3% of the Aggregate Outstanding Amount with respect to any Class of Notes may elect, in connection with any Auction Call Redemption, to receive less than 100% of the portion of the proceeds from the sale of the Collateral Debt Securities conducted for the purpose of such Auction Call Redemption and the balance of all Reserve Account Investments and Eligible Investments and cash in the Issuer’s accounts (other than any Hedge Counterparty Collateral Account, any Asset Hedge Account, any Issuer Collateral Account and any Synthetic Security Counterparty Account) that would otherwise be payable to holders of such Class if such sum were to equal the Auction Call Redemption Amount as defined without reference to this proviso, in which case the Auction Call Redemption Amount will be reduced accordingly for purposes of this definition.

Provided that all of the conditions set forth in clauses (i), (ii), (iii) and (iv) above have been met, (x) the Trustee will sell and transfer the Collateral Debt Securities that are not Synthetic Securities (or the related subpool), without representation, warranty or recourse, to the highest bidder that has offered the highest Auction Price (or the highest bidder for each subpool, as the case may be) and (y) the Issuer will terminate the transactions under each Synthetic Security, in each case in accordance with and upon completion of the auction procedures. Notwithstanding the foregoing, but subject to the satisfaction of the conditions set forth in clauses (i), (ii), (iii) and (iv) above, the Collateral Manager or one of its Affiliates, although it may not have been the highest bidder, will have the option to purchase the Collateral Debt Securities that are not Synthetic Securities (or any subpool) for a purchase price equal to the highest bid therefor. The Trustee will deposit the purchase price for and net termination payments received in respect of the Collateral Debt Securities, together with any Synthetic Security Collateral released from the Synthetic Security Counterparty Accounts, in the Collection Accounts, and the Notes and the Preference Shares will be redeemed on the Distribution Date immediately following the relevant Auction Call Date.

If (x) any of the foregoing conditions is not met with respect to any Auction, (y) the highest bidder (or the highest bidder for any subpool) or the Collateral Manager or its Affiliate, 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 fails to pay any net termination payment owing to the Issuer under any Synthetic Security, in each case before the fifth Business Day preceding the next 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 to pay a net termination payment owing to the Issuer, the End Value is less than the Auction Call Redemption Amount), (a) the Auction Call Redemption will not occur on the Distribution Date following the relevant Auction Call Date, (b) the Trustee will give notice of the withdrawal, (c) subject to clause (e) below, the Trustee will decline to consummate such sale and will not solicit any further bids or otherwise negotiate any further sale of Collateral Debt Securities in relation to such Auction, (d) the Issuer will not terminate any Synthetic Securities in relation to such Auction and (e) unless the Notes are redeemed in full prior to the next succeeding Auction Call Date, or the Collateral Manager notifies the Trustee that market conditions are such that such Auction would not likely be successful, the Trustee will conduct another Auction on the next succeeding Auction Call Date.

Optional Redemption and Tax Redemption

Subject to certain conditions described herein, a Majority-in-Interest of Preference Shares may direct the Issuer to redeem the Notes in whole but not in part, in each case at the applicable Redemption Price therefor, on any Distribution Date, *provided* that no such Optional Redemption may be effected prior to the Distribution Date occurring in March 2010.

In addition, upon the occurrence of a Tax Event, the Notes will be redeemable (such redemption, a “Tax Redemption”), in whole but not in part, by the Issuer (i) at the written direction of a Majority 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 (and, in the case of the Class A-1 Notes, Commitment Fee) payable to such Class on any Distribution Date (each, an “Affected Class”) or (ii) at the direction of a Majority-In-Interest of Preference Shareholders. Any such redemption may only be effected on a Distribution Date and only from (a) the Sale Proceeds of the Collateral and (b) all other funds in the Accounts (other than in any Hedge Counterparty Collateral Account, any Asset Hedge Account, any Synthetic Security Counterparty Account and any Issuer Collateral Account) on the relevant Distribution Date, at the applicable Redemption Price (exclusive of installments of principal, interest (and, in the case of the Class A-1 Notes, Commitment Fee) due on or prior to such date, provided payment of which will have been made or duly provided for, to the Noteholders as provided for in the Indenture). No Tax Redemption may be effected, however, unless (i) all Sale Proceeds under clause (a) above are used to make such Tax Redemption, (ii) funds under clauses (a) and (b) are sufficient to pay the Total Redemption Amount and (iii) the Tax Materiality Condition is satisfied.

A “Tax Event” occurs if, whether or not as a result of any change in law or interpretations, (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, 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 been required, (ii) any jurisdiction imposes net income, profits or similar tax on the Issuer, (iii) the Issuer is required to deduct or withhold from any payment under a Hedge Agreement for or on account of any tax and the Issuer is obligated to make a gross up payment (or otherwise pay additional amounts) to the Hedge Counterparty, or (iv) a Hedge Counterparty is required to deduct or withhold from any payment under a Hedge Agreement for or on account of any tax for whatever reason and such Hedge Counterparty is not 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 been required. The “Tax Materiality Condition” will be satisfied during any 12-month period if any combination of Tax Events results, in aggregate, in a payment by, or charge or tax burden to, the Issuer in excess of U.S.\$1,000,000.

In connection with any Tax Redemption, Holders of at least 66-2/3% of the Aggregate Outstanding Amount of Notes (with respect to a Class of Notes of an Affected Class), as the case may be, may elect to receive less than

100% of the Redemption Price that would otherwise be payable to them (and the minimum Sale Proceeds requirements will be reduced accordingly).

Clean-Up Call Redemption

The Notes may be redeemed by the Issuer at the direction of the Collateral Manager, in whole but not in part (a “Clean-Up Call Redemption”); provided that the Net Outstanding Portfolio Collateral Balance (without giving effect to clauses (a) through (i) of the definition of Principal Balance) as of the day of such redemption (prior to giving effect to such redemption) is less than (or equal to) 10% of the Required Ramp-Up Amount; *provided* that no Clean-Up Call Redemption may occur unless the proceeds from such Clean-Up Call Redemption are sufficient to pay an internal rate of return on the proceeds of issuance of the Preference Shares of at least 4% (taking into account any prior distributions paid to the Preference Shareholders); *provided, further* that upon the sale or liquidation of the Collateral pursuant to a Clean-Up Call Redemption, the holders of the Preference Shares will have the option to purchase all or a portion of the Collateral Debt Securities from the Issuer at a price equal to the highest offer received by the Collateral Manager on behalf of the Issuer in respect of all of the Collateral Debt Securities.

Redemption Procedures

Notice of redemption will be given by first-class mail, postage prepaid, mailed not less than 10 Business Days prior to the date scheduled for redemption (with respect to such Mandatory Redemption, Auction Call Redemption, Clean-Up Call Redemption, Optional Redemption or Tax Redemption, the “Redemption Date”) to each Noteholder at such Noteholder’s address in the register maintained by the registrar under the Indenture, each Hedge Counterparty, the Credit Default Swap Counterparty and each Rating Agency.

Any such notice of redemption may be withdrawn by the Issuer up to the third Business Day prior to the scheduled Redemption Date by written notice, including by email, to the Trustee, each Rating Agency, each Hedge Counterparty, the Credit Default Swap Counterparty and the Collateral Manager, but only if (i) the Collateral Manager is unable to deliver the sale agreement or agreements or certifications referred to in the immediately succeeding paragraph in form satisfactory to the Trustee or (ii) solely with respect to an Optional Redemption, a Majority-in-Interest of Preference Shares have requested that such notice of redemption be withdrawn. During the period when a notice of redemption may be withdrawn, (x) the Issuer will not terminate any Hedge Agreement, the Credit Default Swap Agreement, the Closing Date Swap Agreement, and (y) the Hedge Agreements, Credit Default Swap Agreement and Closing Date Swap Agreement will not be terminable by the relevant Hedge Counterparty, Credit Default Swap Counterparty or Closing Date Swap Counterparty, respectively, in relation to such notice of redemption. Notice of any such withdrawal will be given by the Trustee to each Noteholder at such Noteholder’s address in the Note Register maintained by the Note Registrar under the Indenture by overnight courier guaranteeing next day delivery, sent not later than the third Business Day prior to the scheduled Redemption Date.

The Notes may not be redeemed pursuant to an Auction Call Redemption, Clean-Up Call Redemption, Optional Redemption or Tax Redemption unless, at least four Business Days before the scheduled Redemption Date, the Collateral Manager will have furnished to the Trustee, each Hedge Counterparty and the Credit Default Swap Counterparty evidence (which evidence may be in the form of fax or electronic mail indicating firm bids), that the Collateral Manager on behalf of the Issuer has entered into a binding agreement or agreements with a financial institution or institutions (or any affiliate of such financial institution or any transferee thereof that guarantees the obligations of such financial institution or such transferee, as the case may be) whose short-term unsecured debt obligations are at least “A-1” by Standard & Poor’s and at least “F-1” by Fitch (other than such obligations whose rating is based on the credit of a person other than such institution) and whose short-term unsecured debt obligations have a credit rating of “P-1” by Moody’s (which rating is not on watch for possible downgrade by Moody’s), to sell, terminate or otherwise liquidate, not later than the Business Day immediately preceding the scheduled Redemption Date, for cash in immediately available funds, all or part of the Collateral Debt Securities for Sale Proceeds that, when added to the balance of all Reserve Account Investments, cash and Eligible Investments maturing on or prior to the scheduled Redemption Date credited to the Accounts (other than in any Hedge Counterparty Collateral Account, any Asset Hedge Account, any Synthetic Security Counterparty Account and any Issuer Collateral Account) on the relevant Distribution Date, are at least equal to an amount sufficient to pay any accrued and unpaid amounts payable under the Priority of Payments prior to the payment of the Notes (including (i) any termination payments or other amounts which are or may become payable by the Issuer pursuant to the Hedge Agreements,

Closing Date Swap Agreement and the Credit Default Swap Agreement, (ii) any payments payable by the Issuer under the Indenture including any accrued and unpaid Senior Collateral Management Fee, Subordinate Collateral Management Fee and Collateral Manager Termination Fee and, in each case, accrued interest thereon such that any other amounts accrued and unpaid or otherwise owed are reduced to zero as a result of such termination, (iii) solely with respect to an Optional Redemption in the event the scheduled Redemption Date occurs on or after the Distribution Date occurring in March 2010 but prior to the last day of the Reinvestment Period, a payment to the Collateral Manager equal to the lesser of (a) 100% of the sum of the Senior Collateral Management Fee and Subordinate Collateral Management Fee that would otherwise have been earned from the scheduled Redemption Date through the last day of the Reinvestment Period or (b) 100% of the sum of the Senior Collateral Management Fee and Subordinate Collateral Management Fee that would otherwise have been earned for one full calendar year and (iv) all administrative expenses without regard to the U.S. dollar limitation set forth in paragraph (2) of “Priority of Payments—Interest Proceeds”), and any fees and expenses incurred by the Trustee and the Collateral Manager in connection with such sale, termination or other disposition of Collateral Debt Securities payable by the Issuer and to redeem the Notes on the scheduled Redemption Date at the applicable Redemption Prices (the aggregate amount required to make all such payments, the “Total Redemption Amount”) or, in the case of an Auction Call Redemption, the Auction Call Redemption Amount.

Redemption Price

The amount payable in connection with any Auction Call Redemption, Clean-Up Call Redemption, Optional Redemption or Tax Redemption of any Note will be as set forth in the remainder of this paragraph and as set forth above (with respect to each Class of Notes, the “Redemption Price”). The Redemption Price payable with respect to any Note will be an amount equal to (i)(A) the outstanding principal amount of such Note being redeemed *plus* (B) accrued interest thereon (including Defaulted Interest, interest on Defaulted Interest and any Deferred Interest, as applicable, and interest thereon) *plus* (C) the Commitment Fee accrued up to, but excluding, the Redemption Date or (ii) solely with respect to a Tax Redemption, any lesser amount agreed to in writing by the Holders of at least 66-2/3% of the Aggregate Outstanding Amount (with respect to a Class of Notes of an Affected Class), as the case may be or (iii) solely with respect to an Auction Call Redemption, any lesser amount elected by the Holders of 66-2/3% of the Aggregate Outstanding Amount of any Class of Notes in accordance with the procedures described in “—Auction Call Redemption”.

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 (and, in the case of the Class A-1 Notes, the Commitment Fee) will be made to the person in whose name such Note is registered, in respect of Global Securities, the Business Day prior to such applicable Distribution Date and in respect of Definitive Notes, fifteen days prior to the applicable Distribution Date (the “Record Date”). Payments on each Note will be payable by wire transfer in immediately available funds to a Dollar account maintained by the Noteholder 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. Final payments in respect of principal of the Notes will be made against surrender of such Notes at the office of the Paying Agent.

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. For this purpose, “Business Day” means a day on which commercial banks and foreign exchange markets settle payments in New York City and London and any other 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.

Except as otherwise required by applicable law, any amounts deposited with the Trustee or any Paying Agent in trust for the payment of principal of or interest on any Note and remaining unclaimed for two years after such principal or interest has become due and payable will be paid to the Issuer upon request by the Issuer therefor, and the holder of such Note will 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 (but only to the extent of the amounts so paid to the Issuer) will thereupon cease. The Trustee or the Paying Agent, before being required to make any such release of payment may, but will not be required to, adopt and employ, at the expense of the Issuer, 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.

Priority of Payments

With respect to each Distribution Date, collections received on the Collateral during the Due Period relating to such Distribution Date will be divided into Interest Proceeds and Principal Proceeds in each case, credited to the Payment Account, and applied in the priority set forth below under “Priority of Payments—Interest Proceeds” and “Priority of Payments—Principal Proceeds”, respectively (collectively, the “Priority of Payments”). For purposes of the Priority of Payments, Interest Proceeds will be applied prior to Principal Proceeds except where otherwise indicated.

Interest Proceeds. On each Distribution Date, Interest Proceeds credited to the Payment Account with respect to the related Due Period will be distributed, as provided under the terms of the Notes, in the order of priority set forth below:

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

(2) on any Monthly Distribution Date, (a) *first*, to the payment to the Trustee of an amount not to exceed with respect to each Monthly Distribution Date, one-twelfth of 0.0070% of the Monthly Asset Amount with respect to such Monthly Distribution Date (in each case subject to a minimum of \$2,083.33 on any Monthly Distribution Date), (b) *second*, to the payment, in the following order, to the Trustee, the Collateral Administrator, the Class A-1 Note Agent, the Preference Share Paying Agent and the Administrator, of accrued and unpaid fees, expenses and other amounts (excluding fees paid pursuant to subclause (a) above) owing to them under the Indenture, the Collateral Administration Agreement, the Class A-1 Note Purchase Agreement, the Preference Share Paying Agency Agreement and the Administration Agreement, as applicable, (c) *third*, to the payment of other accrued and unpaid administrative expenses of the Co-Issuers (excluding indemnification amounts and fees, expenses and other amounts described in subclauses (a) and (b) above, the Collateral Management Fee and principal of and interest (or, in the case of the Class A-1 Notes, the Commitment Fee) on the Notes) (d) *fourth*, to the payment of any indemnification amounts and (e) *fifth*, if the balance of all Eligible Investments and cash in the Expense Account on the related Determination Date is less than U.S.\$75,000, for deposit to the Expense Account of such amount that is the lesser of (i) \$20,000 and (ii) an amount that would have caused the balance of all Eligible Investments and cash in the Expense Account immediately after such deposit to equal U.S.\$75,000; *provided* that the aggregate amount of the payments made on such Monthly Distribution Date and on the eleven immediately preceding Monthly Distribution Dates, collectively, pursuant to subclauses (b), (c), (d) and (e) above will not exceed U.S.\$220,000;

(3) on any Monthly Distribution Date, to the payment to the Credit Default Swap Counterparty of any unpaid termination payment (excluding any Defaulted Synthetic Termination Payment) payable by the Issuer in connection with the termination in full (but not the partial termination) of the Credit Default Swap Agreement, together with any accrued interest thereon;

(4) on any Monthly Distribution Date, to the payment to the Collateral Manager of accrued and unpaid Senior Collateral Management Fee;

(5) on any Monthly Distribution Date, to the payment of all amounts scheduled to be paid (a) *first*, to the Closing Date Swap Counterparty pursuant to the Closing Date Swap Agreement, together with any termination payments (and any accrued interest thereon) payable by the Issuer pursuant to the Closing Date Swap Agreement, (b) *second*, to any Interest Rate Hedge Counterparty pursuant to any Interest Rate Hedge Agreement, together with any termination payments (and any accrued interest thereon) payable by the Issuer pursuant to any Interest Rate Hedge Agreement to which the Interest Rate Hedge Counterparty is a party other than a Defaulted Hedge Termination Payment and (c) *third*, to any ABX Index Hedge Counterparty pursuant to any ABX Index Hedge Agreement other than any Defaulted Synthetic Termination Payment;

(6) on any Monthly Distribution Date, to the payment of (i) with respect to any Compliant Class A-1 Noteholder, the Class A-1 Commitment Fee and interest with respect to the Class A-1 Notes, on a *pari passu* basis and (ii) with respect to any Class A-1 Noteholder that is not a Compliant Class A-1 Noteholder as of the Determination Date related to such Monthly Distribution Date, (x) any accrued and unpaid interest and Class A-1 Commitment Fee that accrued prior to the date such Class A-1 Noteholder ceased to be a Compliant Class A-1 Noteholder and (y) any investment earnings on Eligible Investments payable to such Class A-1 Noteholder pursuant to the Class A-1 Note Purchase Agreement (including any Defaulted Interest and accrued interest thereon).

(7) on any Monthly Distribution Date, to the payment of, *first*, interest with respect to the Class A-2 Notes and *second*, interest with respect to the Class B Notes (including, in each case, Defaulted Interest and accrued interest thereon);

(8) on any Monthly Distribution Date, to the payment of interest with respect to the Class C Notes (including Defaulted Interest, if any, and accrued interest thereon and on Class C Deferred Interest, but excluding Class C Deferred Interest);

(9) on any Monthly Distribution Date, to the payment of Class C Deferred Interest;

(10) on any Monthly Distribution Date, to the payment of interest with respect to the Class D Notes (including Defaulted Interest, if any, and accrued interest thereon and on Class D Deferred Interest, but excluding Class D Deferred Interest);

(11) on any Monthly Distribution Date, to the payment of Class D Deferred Interest;

(12) on any Monthly Distribution Date, to the payment of interest with respect to the Class E Notes (including Defaulted Interest, if any, and accrued interest thereon and on Class E Deferred Interest, but excluding Class E Deferred Interest);

(13) on any Monthly Distribution Date, to the payment of Class E Deferred Interest;

(14) on any Monthly Distribution Date, to the payment of interest with respect to the Class F Notes (including Defaulted Interest, if any, and accrued interest thereon and on Class F Deferred Interest, but excluding Class F Deferred Interest);

(15) (a) *first*, on any Monthly Distribution Date, to the payment of Class F Deferred Interest and (b) *second*, on any Monthly Distribution Date occurring on and after the June 2007 Distribution Date, to the payment of principal of the Class F Notes in an amount up to 0.875% of the Aggregate Outstanding Amount of the Class F Notes;

(16) on the Monthly Distribution Date relating to the first Determination Date after the occurrence of a Ratings Confirmation Failure, application of funds in the manner required to obtain a Ratings Confirmation on the Notes in connection with a Proposed Plan approved by the Rating Agencies and consented to by the Credit Default Swap Counterparty and the Class A-1 Noteholder or, if a Proposed Plan cannot be agreed to by the Collateral Manager, on behalf of the Issuer, the Rating Agencies, the Credit Default Swap Counterparty and the Class A-1 Noteholder, *first*, to make a deposit into the Reserve Account

in the amount necessary to permanently reduce the Remaining Unfunded Class A-1 Commitment Amount to zero and *second*, to payment of principal on each Class of Notes in their order of Seniority;

(17) on any Monthly Distribution Date, to the payment to the Collateral Manager of accrued and unpaid Tier 1 Subordinate Collateral Management Fee (and any interest accrued thereon);

(18) on any Monthly Distribution Date occurring prior to the Ramp-Up Completion Date, to the Interest Collection Account to be preserved until, and applied on, the first Monthly Distribution Date occurring on or after the Ramp-Up Completion Date and any subsequent Monthly Distribution Date occurring on or after the Ramp-Up Completion Date to the Preference Share Paying Agent for distribution to the Preference Shareholders up to an amount not to exceed the Target Return I;

(19) on any Monthly Distribution Date following termination of the Collateral Manager without “cause”, to the payment of the Collateral Manager of any Collateral Manager Termination Fee until such Collateral Manager Termination Fee is paid in full;

(20) on any Monthly Distribution Date that is not also a Quarterly Distribution Date, to the Collection Account for application to the Payment Account as Interest Proceeds on the next Monthly Distribution Date;

(21) on any Quarterly Distribution Date occurring on and after the June 2007 Distribution Date, up to and including the Quarterly Distribution Date occurring in March 2012, to the payment of principal of the Class D Notes, Class E Notes and Class F Notes, *pro rata*, in accordance with the respective Aggregate Outstanding Amounts of each such Class of Notes; *provided* that the amount applied pursuant to this provision on such Quarterly Distribution Date does not exceed U.S.\$732,000 in the aggregate;

(22) on any Quarterly Distribution Date occurring prior to the Ramp Up Completion Date, to the Interest Collection Account to be preserved until, and applied on, the first Quarterly Distribution Date occurring on or after the Ramp Up Completion Date and any subsequent Quarterly Distribution Date occurring on or after the Ramp Up Completion Date to the Preference Share Paying Agent for distribution to the Preference Shareholders up to an amount not to exceed the Target Return II, taking into account any amounts paid pursuant to paragraph (18) above;

(23) on any Quarterly Distribution Date, to the payment to the Collateral Manager of accrued and unpaid Tier 2 Subordinate Collateral Management Fee (and any interest accrued thereon);

(24) on any Quarterly Distribution Date, to the payment of first, all accrued and unpaid administrative expenses of the Co-Issuers (including any accrued and unpaid fees, expenses and other amounts owing, in the following order, to the Trustee, the Collateral Administrator, the Preference Share Paying Agent and the Administrator under the Indenture, the Collateral Administration Agreement, the Preference Share Paying Agency Agreement and the Administration Agreement, as applicable) not paid pursuant to paragraph (2) above in the order of priority set forth therein (whether as the result of the limitations on amounts set forth therein or otherwise) and second, if the balance of all Eligible Investments and cash in the Expense Account is less than U.S.\$75,000 after giving effect to any deposit to the Expense Account pursuant to paragraph (2) above, for deposit to the Expense Account of such amount that is the lesser of (i) \$20,000 or (ii) such amount required to cause the balance of all Eligible Investments and cash in the Expense Account to equal U.S.\$75,000;

(25) on any Quarterly Distribution Date, to the payment of *first*, to any Asset Hedge Counterparty pursuant to any Deemed Floating Asset Hedge Agreement, together with any termination payments (and any accrued interest thereon) payable by the Issuer pursuant to any Deemed Floating Asset Hedge Agreement to which the Asset Hedge Counterparty is a party other than a Defaulted Hedge Termination Payment, *second*, any Defaulted Hedge Termination Payments (and any accrued interest thereon) and *third*, any Defaulted Synthetic Termination Payments; *provided* that the aggregate amount of the payments made on such Quarterly Distribution Date pursuant to this paragraph (25) will not exceed U.S.\$20,000; and

(26) on any Quarterly Distribution Date, to the Preference Share Paying Agent for distribution to the Preference Shareholders in accordance with the terms of the Preference Share Paying Agency Agreement.

Principal Proceeds. On each Distribution Date, Principal Proceeds credited to the Payment Account with respect to the related Due Period will be distributed, as provided under the terms of the Notes, in the order of priority set forth below:

(1) on any Monthly Distribution Date, to the payment of the amounts referred to in paragraphs (1) through (7) under “Priority of Payments—Interest Proceeds” above in the same order of priority specified therein, but only to the extent not paid in full thereunder;

(2) on the Monthly Distribution Date relating to the first Determination Date after the occurrence of a Ratings Confirmation Failure, application of funds in the manner required to obtain a Ratings Confirmation on the Notes in connection with a Proposed Plan approved by the Rating Agencies and consented to by the Credit Default Swap Counterparty and the Class A-1 Noteholder or, if a Proposed Plan cannot be agreed to by the Collateral Manager on behalf of the Issuer, the Rating Agencies, the Credit Default Swap Counterparty and the Class A-1 Noteholder, *first*, to make a deposit into the Reserve Account in the amount necessary to permanently reduce the Remaining Unfunded Class A-1 Commitment Amount to zero and *second*, to payment of principal on each Class of Notes in their order of Seniority;

(3) on any Monthly Distribution Date, to make a payment to the Class A-1 Noteholder until the Aggregate Outstanding Amount of Class A-1 Notes is reduced to zero;

(4) on any Monthly Distribution Date prior to the last day of the Reinvestment Period, to the Principal Collection Account to be held therein as “Principal Proceeds” deemed received during the Due Period related to the next succeeding Monthly Distribution Date (and invested in Eligible Investments pending application thereof to acquire additional Collateral Debt Securities in accordance with the Investment Criteria set forth in the Indenture), provided that on any Monthly Distribution Date prior to the last day of the Reinvestment Period, the Collateral Manager may (by notice to the Trustee by the Determination Date), if (i) the Collateral Manager (in its sole discretion) determines that it does not expect to be able to identify attractive and suitable investments in additional Collateral Debt Securities for the Issuer in the near future or (ii) the Deferred Notes Principal is greater than zero, direct the Trustee by notice given no later than the related Determination Date to apply all or a portion of the Principal Proceeds remaining on such Monthly Distribution Date after the payment of all amounts payable pursuant to paragraphs (1) through (3) above either:

(a) if the Pro Rata Payment Conditions are satisfied as of the related Determination Date,

(I) *first*, to the payment of the amounts referred to in paragraphs (8), (10), (12) and (14) under “Priority of Payments—Interest Proceeds”, in the same order of priority specified therein, but only to the extent not paid in full thereunder,

(II) *second*, to the payment of principal of the Notes, *pro rata* in accordance with the respective outstanding aggregate principal amounts of the Notes, in an amount equal to the Deferred Notes Principal on the related Determination Date,

(III) *third*, to the payment of principal of the Notes, *pro rata* in accordance with the respective outstanding aggregate principal amounts of the Notes, including any Deferred Interest, in an amount equal to the Note Reduction Amount for the related Due Period, and

(IV) *fourth*, to make a deposit into the Reserve Account in the amount necessary to permanently reduce the Remaining Unfunded Class A-1 Commitment Amount to zero, or

(b) if any of the Pro Rata Payment Conditions are not satisfied as of the related Determination Date,

(I) *first*, to make a deposit into the Reserve Account until the Remaining Unfunded Class A-1 Commitment Amount is reduced to zero, and

(II) *second*, to the payment of principal of, *first*, the Class A-1 Notes (until the funded amount of Class A-1 Notes have been paid in full) and *second*, each Class of Notes in their order of Seniority (until such Class of Notes have been paid in full);

(5) on any Monthly Distribution Date on or after the last day of the Reinvestment Period,
either

(a) if the Pro Rata Payment Conditions have been satisfied as of the related Determination Date:

(I) *first*, to the payment of the amounts referred to in paragraphs (8), (10), (12) and (14) under “Priority of Payments—Interest Proceeds”, in the same order of priority specified therein, but only to the extent not paid in full thereunder,

(II) *second*, to the payment of principal of the Notes, pro rata in accordance with the respective outstanding aggregate principal amounts of the Notes, in an amount equal to the Deferred Notes Principal on the related Determination Date,

(III) *third*, to the payment of principal of the Notes, *pro rata* in accordance with the respective outstanding aggregate principal amounts of the Notes, including any Deferred Interest, in an amount equal to the Note Reduction Amount for the related Due Period, and

(IV) *fourth*, to make a deposit into the Reserve Account until the Remaining Unfunded Class A-1 Commitment Amount is reduced to zero, or

(b) if the Pro Rata Payment Conditions have not been satisfied as of the related Determination Date,

(I) to the payment of principal of the Class A-1 Notes until the funded Aggregate Outstanding Amount of the Class A-1 Notes has been paid in full and, after the funded Aggregate Outstanding Amount of the Class A-1 Notes has been reduced to zero, to make a deposit into the Reserve Account until the Remaining Unfunded Class A-1 Commitment Amount has been reduced to zero;

(II) to the payment of principal of, *first*, the Class A-2 Notes (until the Aggregate Outstanding Amount of the Class A-2 Notes has been reduced to zero) and *second*, the Class B Notes (until the Aggregate Outstanding Amount of the Class B Notes has been reduced to zero);

(III) to the payment of, *first*, any amounts referred to in paragraphs (8) and (9) under “Priority of Payments—Interest Proceeds” to the extent not paid in full thereunder; and *second*, to the payment of principal of the Class C Notes (until the Aggregate Outstanding Amount of the Class C Notes has been reduced to zero);

(IV) to the payment of, *first*, any amounts referred to in paragraphs (10) and (11) under “Priority of Payments—Interest Proceeds” to the extent not paid in full thereunder; and *second*, to the payment of principal of the Class D Notes (until the Aggregate Outstanding Amount of the Class D Notes has been reduced to zero);

(V) to the payment of, *first*, any amounts referred to in paragraphs (12) and (13) under “Priority of Payments—Interest Proceeds” to the extent not paid in full

thereunder; and *second*, to the payment of principal of the Class E Notes (until the Aggregate Outstanding Amount of the Class E Notes has been reduced to zero); and

(VI) to the payment of, *first*, any amounts referred to in paragraphs (14) and (15)(a) under “Priority of Payments—Interest Proceeds” to the extent not paid in full thereunder; and *second*, to the payment of principal of the Class F Notes (until the Aggregate Outstanding Amount of the Class F Notes has been reduced to zero);

(6) on any Monthly Distribution Date, to the payment of the amounts referred to in paragraphs (15)(b), (17) and (19) under “Priority of Payments—Interest Proceeds”, in the same order of priority specified therein, but only to the extent not paid in full thereunder;

(7) on any Monthly Distribution Date that is not also a Quarterly Distribution Date, to the Collection Account for application to the Payment Account as Principal Proceeds on the next Monthly Distribution Date;

(8) on any Quarterly Distribution Date, to the payment of the amounts referred to in paragraphs (22) through (25) under “Priority of Payments—Interest Proceeds”, in the same order of priority specified therein, but only to the extent not paid in full thereunder;

(9) on any Quarterly Distribution Date on and after the last day of the Reinvestment Period, to the Preference Share Paying Agent for distribution to the Preference Shareholders in accordance with the provisions of the Preference Share Paying Agency Agreement.

On the Monthly Distribution Date relating to the first Determination Date occurring more than 20 days after the Ramp-Up Completion Date, if a Ratings Confirmation Failure has occurred, funds will be applied in the manner required to obtain a Ratings Confirmation on the Notes in connection with the Proposed Plan approved by the Rating Agencies and consented to by the Credit Default Swap Counterparty and the Class A-1 Noteholder. If any Proposed Plan cannot be agreed to by the Collateral Manager on behalf of the Issuer, the Rating Agencies, the Credit Default Swap Counterparty and the Class A-1 Noteholder, amounts will be applied in the manner set forth in the Indenture and as described under “Ratings of the Notes—Ratings Confirmation Failure”.

Except as otherwise expressly provided in the Priority of Payments, if, on any Distribution Date, Interest Proceeds and Principal Proceeds received in the related Due Period are insufficient to make the full amount of the disbursements required by any paragraph in the Priority of Payments to different persons, the Trustee will make the disbursements called for by each such paragraph ratably in accordance with the respective amounts of such disbursements then due and payable to the extent that funds are available therefor.

Any amounts to be paid to the Preference Share Paying Agent pursuant to paragraphs (18), (22) and (26) of the “Priority of Payments—Interest Proceeds” or paragraphs (8) and (9) of the “Priority of Payments—Principal Proceeds” will be released from the lien of the Indenture.

Distributions Upon Liquidation

If the Notes and the Preference Shares have not been redeemed prior to the Stated Maturity, it is expected that the Issuer (or the Trustee, upon written direction of the Collateral Manager acting pursuant to the Collateral Management Agreement on behalf of the Issuer) will sell all of the Collateral Debt Securities, Reserve Account Investments and Eligible Investments, terminate all CDS Agreement Transactions that have not yet terminated and sell or liquidate all other Collateral.

All net proceeds from such liquidation and all available cash will be applied to the payment of all (i) fees, (ii) expenses (including the amounts due to each Hedge Counterparty) and (iii) principal of and interest (including any Commitment Fees, Defaulted Interest, interest on Defaulted Interest and any Deferred Interest and interest thereon) on the Notes in order of seniority. Net proceeds from such liquidation and available cash remaining after all payments required pursuant to the Indenture and the payment of the costs and expenses of such liquidation, the establishment of adequate reserves to meet all contingent, unliquidated liabilities or obligations of the Issuer, the payment to the Preference Shareholders of the aggregate liquidation value of the Preference Shares, the return of

U.S.\$250 of capital to the owner of the Issuer's ordinary shares and the payment of a U.S.\$250 profit fee to the owner of the Issuer's ordinary shares and interest thereon, will be distributed to the Preference Shareholders in accordance with the Preference Share Paying Agency Agreement. Notwithstanding anything herein to the contrary, if a Redemption Date falls on a Monthly Distribution Date that is not a Quarterly Distribution Date, the Preference Shareholders will receive proceeds in respect of such redemption on such Redemption Date as if such date were a Quarterly Distribution Date.

Reduction of the Excess Notional Amount Liquidity

During the Reinvestment Period, if the Excess Notional Amount Liquidity is greater than zero, the Collateral Manager may (in its sole discretion) elect to reduce the Excess Notional Amount Liquidity (but not to less than zero) by making a permanent reduction of the Remaining Unfunded Class A-1 Commitment Amount.

No Gross-Up

All payments made by the Issuer under the Securities 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 (A) any interest or Commitment Fee on the Class A-1 Notes, any interest on the Class A-2 Notes or Class B Notes or (B) if there are no Senior Class of Notes outstanding, interest on any Class C Note or (C) if there are no Senior Class of Notes outstanding, interest on any Class D Note or (D) if there are no Senior Class of Notes outstanding, interest on any Class E Note or (E) if there are no Senior Class of Notes outstanding, interest on any Class F Note, when the same becomes due and payable, in each case which default continues for a period of three Business Days (or, in the case of a default in payment resulting solely from an administrative error or omission by the Trustee, the Administrator, a Paying Agent (other than the Preference Share Paying Agent) or the Note Registrar, five Business Days after the Trustee, Administrator, Paying Agent or Note Registrar is made actually aware of such administrative error or omission);

(ii) a default in the payment of principal on any Note when the same becomes due at the Stated Maturity or Redemption Date which default continues for a period of three Business Days (or, in the case of a payment default resulting solely from an administrative error or omission by the Trustee, the Administrator, a Paying Agent (other than the Preference Share Paying Agent) or the Note Registrar, such default continues for a period of five Business Days after the Trustee, Administrator, Paying Agent or Note Registrar is made actually aware of such administrative error or omission);

(iii) the failure on any Distribution Date to disburse amounts available in the Interest Collection Account or Principal Collection Account in accordance with the 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 resulting solely from an administrative error or omission by the Trustee, the Administrator, a Paying Agent (other than the Preference Share Paying Agent) or the Note Registrar, such default continues for a period of five Business Days after the Trustee, Administrator, Paying Agent or Note Registrar is made actually aware of such administrative error or omission);

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

(v) a default in the performance, or breach, of any other covenant or other agreement (other than (1) a default described in clause (i), (ii), (iii) or (iv) above or (2) the covenant to meet the Collateral Quality Tests or the Investment Criteria (it being understood that with respect to the purchase or sale of any Collateral Debt Security all conditions applicable thereto under the Indenture, including those specified in the section entitled “Security for the Notes—Investment Criteria”, will be satisfied)) 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, and the continuation of such default or breach for a period of 30 days (or, if such default, breach or failure has an adverse effect on the validity, perfection or priority of the security interest granted under the Indenture, 15 days) after any of the Issuer, the Co-Issuer or the Collateral Manager has actual knowledge thereof or after notice thereof to the Issuer and the Collateral Manager by the Trustee, the holders of at least 25% in Aggregate Outstanding Amount of Notes of the Controlling Class, the Credit Default Swap Counterparty, the Closing Date Swap Counterparty or any of the Hedge Counterparties;

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

(vii) on any Determination Date, if the ratio (expressed as a percentage) obtained by dividing (A) the aggregate par value on such Determination Date of all (i) Collateral Debt Securities determined giving effect to the Haircut Amount, if applicable (*provided* that the aggregate par value of any Defaulted Security will be deemed to be the lower of (i) its Market Value and (ii) its Applicable Recovery Rate), (ii) the Excess Notional Amount Liquidity, (iii) Principal Proceeds held as cash and (iv) Eligible Investments purchased with Principal Proceeds by (B) the sum of (i) the Aggregate Outstanding Amount of the Class A Notes and (ii) the Remaining Unfunded Class A-1 Commitment Amount, is less than 100%.

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

In the event that there is a payment default on any Notes resulting from an administrative error or omission by the Trustee, the Administrator, a Paying Agent (other than the Preference Share Paying Agent) or the Note Registrar, the Trustee will promptly notify the Rating Agencies and the Collateral Manager of such payment default.

If an Event of Default occurs and is continuing (other than an Event of Default described in clause (vi) under “Events of Default” above), (i) the Trustee may with the consent of a Majority of the Controlling Class, or will at the direction of a Majority of the Controlling Class, by notice to the Co-Issuers, or (ii) a Majority of the Controlling Class, by notice to the Co-Issuers and the Trustee, may (A) declare the principal of and accrued and unpaid interest on all of the Notes and Commitment Fees on the Class A-1 Notes to be immediately due and payable and (B) terminate the Reinvestment Period. If an Event of Default described in clause (vi) above under “Events of Default” occurs, (x) such an acceleration under clauses (A) above will occur automatically and without any further action and (y) the Reinvestment Period will terminate. Notwithstanding the foregoing, if the sole Event of Default is an Event of Default described in clause (i) or clause (ii) above under “Events of Default” with respect to a default in the payment of any principal of or interest on the Notes of a Class other than the Controlling Class, neither the Trustee nor the holders of such non-Controlling Class will have the right to declare such principal and other amounts to be immediately due and payable. Any declaration of acceleration may under certain circumstances be rescinded and its consequences annulled by the holders of at least a Majority of the Controlling Class as described further in the Indenture.

If an Event of Default occurs and is continuing when any Note is outstanding or the Commitment Termination Date has not occurred, the Trustee will retain the Collateral intact and collect all payments in respect of the Collateral and continue making payments in the manner described under “—Priority of Payments” unless:

(A) the Trustee determines that the anticipated net proceeds of a sale or liquidation of such Collateral (after deducting the reasonable expenses of such sale) would be sufficient to pay any termination payments or other amounts that are or will become due to the Hedge Counterparties or the Credit Default Swap Counterparty (net of all amounts owing to the Issuer by any Hedge Counterparty) and to discharge in full the amounts then due and unpaid on the Notes and certain administrative expenses in accordance with the Priority of Payments and a Majority of the Controlling Class agree with such determination; or

(B) the holders of a Majority of the Controlling Class direct the sale and liquidation of the Collateral subject to the provisions of the Indenture.

Upon the sale or liquidation of the Collateral pursuant to clause (B) above, the holders of the Preference Shares will have the option to purchase all or a portion of the Collateral Debt Securities from the Issuer at a price equal to the highest offer received by the Collateral Manager on behalf of the Issuer in respect of such Collateral Debt Securities.

A Majority 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 (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); (iii) the Trustee has been provided with indemnity satisfactory to it; and (iv) any direction to undertake a sale of the Collateral may be made only as described in the preceding paragraph.

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

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

A Majority 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, except a default (a) in the payment of the principal of any Note or in the payment of interest (including any Defaulted Interest, interest on Defaulted Interest, (in the case of the Class C Notes, Class D Notes, Class E Notes and Class F Notes) any Deferred Interest and interest thereon) on the Class A Notes and the Class B Notes or, after such Notes have been paid in full, the Class C Notes, or, if all Senior Classes of Notes have been paid in full, the Class D Notes, or, if all Senior Classes of Notes have been paid in full, the Class E Notes, or, if all Senior Classes of Notes have been paid in full, the Class F Notes, (b) 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 the Class A-1 Noteholder, or (c) arising as a result of an Event of Default described in clause (vi) above under “Events of Default”.

The Issuer will not terminate the Class A-1 Note Purchase Agreement, the Credit Default Swap Agreement, the Closing Date Swap Agreement or any Hedge Agreement in effect immediately prior to a declaration of acceleration unless the liquidation of the Collateral has begun and such declaration is no longer capable of being rescinded or annulled.

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% of the Aggregate Outstanding Amount of the Controlling Class, the Credit Default Swap Counterparty, the Closing Date Swap Counterparty or any Hedge Counterparty have made a written request upon the Trustee to institute such proceedings in its own name as Trustee and such holder or holders, Hedge Counterparty, Credit Default Swap Counterparty or the Closing Date Swap Counterparty, as applicable, have offered the Trustee reasonable indemnity, (iii) the Trustee has for 30 days after receipt of such notice 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 a Majority of the Controlling Class.

In determining whether the holders of the requisite percentage of Notes have given any direction, notice or consent, (i) Notes owned by the Issuer, the Co-Issuer or any Affiliate thereof will be disregarded and deemed not to be outstanding and (ii) in relation to any assignment or termination of any of the express rights or obligations of the Collateral Manager under the Collateral Management Agreement or the Indenture (including the exercise of any right to remove the Collateral Manager or terminate the Collateral Management Agreement or approve or object to a Replacement Manager), or any amendment or other modification of the Collateral Management Agreement or the Indenture increasing the rights or decreasing the obligations of the Collateral Manager, Notes owned by the Collateral Manager or any of its Affiliates, or by any accounts managed by them (over which they may have discretionary voting authority), will be disregarded and deemed not to be outstanding. The Collateral Manager and its Affiliates will be entitled to vote Notes held by them, and by accounts managed by them, with respect to all matters other than those described in the foregoing clause (ii). The term “Collateral Manager” for purposes of this paragraph includes any successor or successors to VERO.

Notices

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

Modification of the Indenture

With the consent of (x) the holders of not less than a Majority of each Class of Notes materially adversely affected thereby (if any Class of Notes is materially adversely affected thereby) and a Majority-in-Interest of Preference Shares (if the Preference Shareholders are materially adversely affected thereby) and (y) each Hedge Counterparty (to the extent required in the related Hedge Agreement), the Credit Default Swap Counterparty (to the extent required in the Credit Default Swap Agreement), the Closing Date Swap Counterparty (to the extent required in the Closing Date Swap Agreement), the Trustee and Co-Issuers may enter into one or more supplemental indentures to add provisions to, or change in any manner or eliminate any provisions of, the Indenture or modify in any manner the rights of the holders of the Notes of such Class, the Preference Shares, the Credit Default Swap Counterparty, the Closing Date Swap Counterparty or the Hedge Counterparties, as the case may be, under the Indenture. Unless notified by a Majority of any Class of Notes or a Majority-in-Interest of Preference Shares that such Class of Notes or the Preference Shares will be materially adversely affected, or by a Hedge Counterparty, the Credit Default Swap Counterparty or the Closing Date Swap Counterparty that such Hedge Counterparty, Credit Default Swap Counterparty or Closing Date Swap Counterparty will be materially adversely affected, the Trustee may, consistent with the written advice of counsel, determine whether or not such Class of Notes or the Preference Shares would be materially adversely affected or such Hedge Counterparty, Credit Default Swap Counterparty or Closing Date Swap Counterparty would be materially adversely affected by such change (after giving notice of such change to the holders of such Class of Notes, the Preference Shareholders, the Credit Default Swap Counterparty, the Closing Date Swap Counterparty and such Hedge Counterparty). Such determination will be conclusive and binding on all present and future holders of the Notes, the Preference Shareholders, the Credit Default Swap Counterparty, the Closing Date Swap Counterparty and such Hedge Counterparty.

Notwithstanding the foregoing, the Trustee may not enter into any supplemental indenture without the consent of each holder of each outstanding note of the Controlling Class adversely affected thereby and of each outstanding Note of each other Class materially adversely affected thereby, each Preference Shareholder (if the holders of the Preference Shares are materially adversely affected thereby), the Hedge Counterparties (to the extent required in the related Hedge Agreement), the Credit Default Swap Counterparty (to the extent required in the Credit Default Swap Agreement) and the Closing Date Swap Counterparty (to the extent required in the Closing Date Swap Agreement), if such supplemental indenture (i) changes the Stated Maturity of the principal of or the due date of any installment

of interest or Commitment Fee, as applicable, on any Note, reduces the principal amount thereof or the rate of interest or Commitment Fee thereon or the redemption price with respect thereto, changes the earliest date on which the Issuer may redeem any Note, changes the provisions of the Indenture relating to the application of proceeds of any Collateral to the payment of principal of or interest or Commitment Fee, as applicable, on the Notes, changes any place where, or the coin or currency in which, any Note or the principal thereof or interest or Commitment Fee thereon is payable, or impairs the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof (or, in the case of redemption, on or after the applicable redemption date), (ii) deletes the requirement of the consent of the Class A-1 Noteholder or reduces the percentage in Aggregate Outstanding Amount of holders of Notes of each Class and holders of Preference Shares, in each case 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, (iii) impairs or adversely affects the Collateral pledged under the Indenture except as otherwise permitted thereby, (iv) permits the creation of any lien ranking prior to or on a parity with the lien created by the Indenture with respect to any part of the Collateral or terminates such lien on any property at any time subject thereto (other than in connection with a sale thereof in accordance with the Indenture) or deprives the holder of any Note of the security afforded by the lien created by the Indenture, (v) reduces the percentage of the Aggregate Outstanding Amount of holders of Notes of each Class or removes any other Secured Party, in each case whose consent is required 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, (vi) modifies any of the provisions of the Indenture with respect to the undertaking of party litigants to pay (if required) costs of suits for (among others) the enforcement of rights under the Indenture or against the Trustee, (vii) modifies any of the provisions of the Indenture with respect to supplemental indentures requiring the consent of any Noteholders or Preference Shareholders except to increase the percentage of outstanding Notes or Preference Shares whose holders' consent is required for any such 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 or Preference Share adversely affected thereby, (viii) modifies the definition of the term "Outstanding" or the subordination provisions of the Indenture, (ix) changes the permitted minimum denominations of any Class of Notes, (x) modifies any of the provisions of the Indenture in such a manner as to affect the calculation of the amount of (a) any payment of interest (or, in the case of the Class A-1 Notes, the Commitment Fee) 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 (b) any deposit into the Reserve Account or (xi) changes the provisions of the Indenture relating to the calculation or due date of, or the application of proceeds of any Collateral to the reduction or calculation of the Remaining Unfunded Class A-1 Commitment Amount. The Trustee may not enter into any such supplemental indenture unless (1)(x) the Rating Condition with respect to each Rating Agency will have been satisfied with respect to such supplemental indenture or (y) consent from each affected holder of Notes adversely affected thereby is obtained and (2) notice of such supplemental indenture has been provided to Moody's.

The Co-Issuers and the Trustee may also enter into supplemental indentures without obtaining the consent of holders of any Notes, the Preference Shareholders, the Hedge Counterparties (except to the extent required by the Hedge Agreements), the Credit Default Swap Counterparty (except to the extent required in the Credit Default Swap Agreement) or the Closing Date Swap Counterparty (except to the extent required in the Closing Date Swap Agreement) in order to (i) evidence the succession of another 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 or with the Trustee, (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 will 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 to enable the Co-Issuers to rely upon any less restrictive exemption from registration under the Securities Act or the Investment Company Act 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 to correct any manifest 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, (viii) obtain ratings for one or more Classes of Notes from any rating agency, (ix) accommodate the issuance of Notes or Preference Shares in exchange for existing Notes or Preference Shares, as the case may be, to be held in global form through the facilities of DTC, Euroclear or Clearstream, Luxembourg or otherwise or the listing of the Notes or Preference Shares on any exchange or the issuance of additional Preference Shares, (x) solely, in order to, and solely to the extent required to accommodate the listing or de-listing of any Notes or Preference Shares on any stock exchange, (xi) to make any non-material administrative changes as the Co-Issuers deem appropriate, (xii) to prevent the Issuer, the Noteholders or the Trustee from being subject to withholding or other taxes, fees or assessments or to prevent the Issuer from being treated as engaged in a United States trade or business for U.S. federal income tax purposes or otherwise subject to U.S. federal, state, local or foreign income and franchise tax on a net income tax basis; *provided* that such action will not adversely affect the tax treatment of the Noteholders as described in the Offering Memorandum under the heading “Certain U.S. Federal Income Tax Considerations” to any material extent or otherwise cause any of the statements described in the Offering Memorandum under the heading, “Certain U.S. Federal Income Tax Considerations” to be inaccurate or incorrect to any material extent, (xiii) avoid the Issuer or the Co-Issuer or the Collateral Manager being required to register as an investment company under the Investment Company Act, (xiv) accommodate the issuance of any Class of Notes as definitive notes or (xv) with the consent of a Majority of the Controlling Class, make any change to the Indenture necessary in order to conform the Indenture to a Proposed Plan (excluding any changes to the Investment Criteria). Unless notified by a Majority of any Class of Notes, a Majority-in-Interest of Preference Shares, the Credit Default Swap Counterparty, the Closing Date Swap Counterparty or any Hedge Counterparty that such Class of Notes, the Preference Shareholders or such Hedge Counterparty will be materially adversely affected, the Trustee may rely upon an opinion of counsel as to whether the interests of any Noteholder, Preference Shareholder, Credit Default Swap Counterparty, Closing Date Swap Counterparty or Hedge Counterparty would be materially adversely affected by any such supplemental indenture; *provided* that, where any supplemental indenture reflects any proposed amendments or modifications that are factual, quantitative or financial in nature, any counsel providing such opinion will be entitled to rely upon a certificate of the Collateral Manager (which the Collateral Manager is not obligated to provide) stating that any proposed amendment or modification will not materially adversely affect the interests of any Noteholder, Preference Shareholder, Credit Default Swap Counterparty, Closing Date Swap Counterparty or Hedge Counterparty, to the extent of such quantitative or financial amendment or modification. The Trustee may not enter into any supplemental indenture described in clause (vi), (vii), (xiv) or (xv) of this paragraph without the written consent of the Collateral Manager. In addition, the Trustee may not enter into any supplemental indenture without the written consent of the Collateral Manager if such supplemental indenture alters the rights or obligations of the Collateral Manager in any respect, and the Collateral Manager will not be bound by any such supplemental indenture unless the Collateral Manager has consented thereto in writing. The Trustee will not enter into any such supplemental indenture if, with respect to such supplemental indenture, the Rating Condition with respect to each Rating Agency 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 Class, the Credit Default Swap Counterparty, the Closing Date Swap Counterparty and each Hedge Counterparty, enter into any such supplemental indenture notwithstanding any such reduction or withdrawal of the ratings of any outstanding Class of Notes.

For purposes of this section, the interests of the Credit Default Swap Counterparty, any Hedge Counterparty and the Closing Date Swap Counterparty will be deemed not to be materially adversely affected by, and the Credit Default Swap Counterparty and a Hedge Counterparties will have no right of consent in relation to, any supplemental indenture with respect to, (i) the appointment of any successor Collateral Manager in accordance with the Collateral Management Agreement and (ii) any change to the Senior Collateral Management Fee, the Subordinate Collateral Management Fee, or otherwise in respect of the fees, liabilities and expenses to apply to such successor Collateral Manager.

Notwithstanding anything herein to the contrary, the terms “Hedge Counterparty” and “Hedge Counterparties” will not include any Asset Hedge Counterparties, Deemed Floating Asset Hedge Counterparties or Deemed Fixed Asset Hedge Counterparties for the purposes of this subsection “—Modification of the Indenture”.

The Trustee will not enter into any such supplemental indenture unless the Trustee has received advice from Cadwalader, Wickersham & Taft LLP or Clifford Chance US LLP, or an opinion of other nationally recognized U.S. tax counsel experienced in such matters that (i) the modification will not adversely affect the tax treatment of the Noteholders as described in the Offering Memorandum under the heading “Certain U.S. Federal Income Tax Considerations” to any material extent or otherwise cause any of the statements described in the Offering

Memorandum under the heading, “Certain U.S. Federal Income Tax Considerations” to be inaccurate or incorrect to any material extent, and (ii) the proposed supplemental indenture will not cause the Issuer to be treated as engaged in a United States trade or business for U.S. federal income tax purposes or otherwise subject to U.S. federal income tax on a net income tax basis.

Modification of Certain Other Documents

Prior to entering into any amendment to the Collateral Management Agreement, the Collateral Administration Agreement, the Administration Agreement, the Class A-1 Note Purchase Agreement, the Credit Default Swap Agreement, the Closing Date Swap Agreement or any Hedge Agreement (*provided* that the amendment to such Hedge Agreement, Credit Default Swap Agreement, Closing Date Swap Agreement or Class A-1 Note Purchase Agreement has been consented to by the relevant Hedge Counterparty, the Credit Default Swap Counterparty, the Closing Date Swap Counterparty or the Class A-1 Noteholder, as applicable), the Issuer is required by the Indenture to provide notice of such amendment to each Noteholder materially adversely affected thereby (*provided* that the Issuer will obtain the consent of the Class A-1 Noteholder with respect to any amendment to the Credit Default Swap Agreement) and the Credit Default Swap Counterparty (if it is materially adversely affected thereby) and to obtain the written confirmation of Standard & Poor’s and Moody’s that the entry by the Issuer into such amendment satisfies the Rating Condition. Prior to entering into any waiver in respect of any of the foregoing agreements, the Issuer is required to provide each Noteholder (if materially adversely affected thereby), each Rating Agency, each Hedge Counterparty, the Credit Default Swap Counterparty and the Trustee with written notice of such waiver. The amendment to and waiver of provisions of the Collateral Management Agreement are also subject to additional restrictions as described herein under “The Collateral Management Agreement”.

Each of the Hedge Counterparties, the Class A-1 Noteholder, the Closing Date Swap Counterparty, the Collateral Manager and the Credit Default Swap Counterparty will be an express third party beneficiary of the Indenture.

Consolidation, Merger or Transfer of Assets

Neither the Issuer nor Co-Issuer will consolidate or merge with or into any other entity or transfer or convey all or substantially all of its assets to any entity.

Petitions for Bankruptcy

The Indenture provides that the holders of the Notes agree not to cause 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 then Controlling Class or, if longer, the applicable preference period then in effect.

Satisfaction and Discharge of Indenture

The Indenture will be discharged with respect to the Collateral upon delivery to the Trustee for cancellation of all of the Notes, or, subject to certain limitations, upon deposit with the Trustee of funds sufficient for the payment or redemption of the Notes and the payment by the Co-Issuers of all other amounts due under the Notes, the Indenture, the Preference Share Paying Agency Agreement, the Credit Default Swap Agreement, the Class A-1 Note Purchase Agreement, the Closing Date Swap Agreement, any Hedge Agreement, the Collateral Administration Agreement, the Administration Agreement, the Collateral Management Agreement and any Synthetic Securities.

Except as otherwise required by applicable law, any money deposited with the Trustee or any paying agent in trust for the payment of the principal of or interest on any Note, or distribution on any Preference Share, and remaining unclaimed for two years after such principal, interest or distribution have become due and payable will be paid to the Co-Issuers on request of the Issuer; and the Holder of such Note or Preference Share will thereafter, as an unsecured general creditor, look only 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 money (but only to the extent of the amounts so paid to the Co-Issuers) will terminate.

Trustee

LaSalle Bank National Association, will be the Trustee under the Indenture. The Co-Issuers, the Collateral Manager 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 U.S. dollar limitations set forth in the Priority of Payments with respect to applicable Distribution Date), which lien the Trustee is entitled to exercise only under certain circumstances. In the Indenture, the Trustee will agree not to cause the filing, in its capacity as Trustee and in any individual or other capacity in respect of which it has been appointed under the Indenture, of a petition for winding up or of any 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 then in effect, after the payment in full of all of the Notes.

The Trustee may resign at any time by giving 30 days' prior written notice thereof to the Co-Issuers, the Noteholders, the Collateral Manager, the Closing Date Swap Counterparty, each Hedge Counterparty, the Credit Default Swap Counterparty, each Rating Agency and the Preference Share Paying Agent. Upon receiving such notice of resignation, the Co-Issuers will promptly appoint a successor trustee. If no successor trustee will have been appointed and an instrument of acceptance by a successor Trustee will not have been delivered to the Trustee within 30 days after the giving of such notice of resignation, the resigning Trustee or any holder of a Note, on behalf of itself and all others similarly situated, may petition any court of competent jurisdiction for the appointment of a successor Trustee. The Trustee may be removed at any time by a Majority of the Controlling Class. The Co-Issuers may remove the Trustee, or any holder of a Note may, on behalf of itself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee if (a) the Trustee ceases to be eligible to act in such capacity under the Indenture and fails to resign after written request therefor by the Co-Issuers or by any holder or (b) the Trustee becomes incapable of acting, is adjudged as bankrupt or insolvent or a receiver or liquidator of the Trustee or of its property is appointed or any public officer takes charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation. No resignation or removal of the Trustee will become effective until the acceptance of the appointment of a successor Trustee.

Tax Characterization

The Issuer intends to treat the Notes as debt instruments of the Issuer only for U.S. federal, state and local income and franchise tax purposes. The Indenture will provide that each registered holder and beneficial owner, by accepting a Note, 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.

Governing Law

The Indenture, the Subscription Agreements, the Notes, the Preference Share Paying Agency Agreement, the Credit Default Swap Agreement, the Closing Date Swap Agreement, the Collateral Administration Agreement, each Hedge Agreement, the Class A-1 Note Purchase Agreement and the Collateral Management Agreement will be governed by, and construed in accordance with, the law of the State of New York. The Issuer Charter and the Preference Shares will be governed by, and construed in accordance with, the law of the Cayman Islands.

DESCRIPTION OF THE PREFERENCE SHARES

The Preference Shares will be issued pursuant to the Memorandum and Articles of Association of the Issuer (the “Issuer Charter”) and will be subject to the provisions of a Preference Share Paying Agency Agreement, dated as of the Closing Date (the “Preference Share Paying Agency Agreement” and, together with the Issuer Charter and resolutions of the Issuer, the “Preference Share Documents”) between LaSalle Bank National Association, as preference share paying agent (in such capacity, the “Preference Share Paying Agent”), Maples Finance Limited, as Preference Share Registrar and the Issuer and will be subject to the Subscription Agreements. The following summary describes certain provisions of the Preference Shares, the Issuer Charter, the Preference Share Paying Agency Agreement and the Subscription Agreements. This summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the Issuer Charter, the Preference Share Paying Agency Agreement and the Subscription Agreements. After the closing, copies of the Issuer Charter, the Preference Share Paying Agency Agreement and the form of Subscription Agreement may be obtained by prospective investors upon request in writing to the Preference Share Paying Agent at LaSalle Bank National Association, 181 West Madison Street, 32nd Floor, Chicago, Illinois 60602, Attention: CDO Trust Services Group – Volans Funding 2007-1, Ltd.

Status

The Preference Shares will constitute an equity interest in the Issuer and will not be secured under the Indenture. The Issuer is authorized to issue 38,000 Preference Shares, with a par value of U.S.\$0.01 per share. The Preference Shares will be issued at an issue price of U.S.\$1,000 per share and have an aggregate liquidation preference of U.S.\$1,000 per share. The Preference Shares will be issued in minimum lots of 100 Preference Shares and in integral multiples of one lot in excess thereof. Fractional Preference Shares will not be issued.

The Preference Shares will be sold at a discount from the liquidation preference. The sum of proceeds from the sale of the Preference Shares and a portion of the initial payment under the Closing Date Swap will be equal to the liquidation preference of the Preference Shares.

Distributions

On each Quarterly Distribution Date occurring on or after the Ramp-Up Completion Date, as set forth in the Priority of Payments, to the extent that funds are available therefor, Interest Proceeds will be released from the lien of the Indenture for payment to the Preference Share Paying Agent for distribution to the Preference Shareholders by way of dividends only after the payment of interest on the Notes and, in certain circumstances, principal due in respect of the Notes and the payment of certain other amounts in accordance with the Priority of Payments. Any Interest Proceeds permitted to be released from the lien of the Indenture and paid to the Preference Share Paying Agent will be distributed to the Preference Shareholders on each Distribution Date. The Scheduled Final Redemption Date of the Preference Shares is the Distribution Date occurring in March 2052. However, the Preference Shares may be paid in full prior to the Scheduled Final Redemption Date thereof following the Mandatory Redemption, Optional Redemption, Tax Redemption, Auction Call Redemption or Clean-Up Call Redemption of the Notes, in each case, out of proceeds of the liquidation of the pool of Collateral. Until the Notes and certain other amounts have been paid in full, Principal Proceeds are not permitted to be released from the lien of the Indenture and will not be available to make distributions in respect of the Preference Shares. See “Description of the Notes—Priority of Payments—Interest Proceeds” and “—Principal Proceeds” and “Security for the Notes”.

Subject to provisions of The Companies Law (2004 Revision) of the Cayman Islands, the Issuer Charter and the Preference Share Paying Agency Agreement governing the declaration and payment of dividends, after the Notes and certain other amounts have been paid in full, Interest Proceeds and Principal Proceeds will be released from the lien of the Indenture in accordance with the Priority of Payments and paid to the Preference Share Paying Agent on each Distribution Date for distribution by way of dividends to the Preference Shareholders on such Distribution Date. Cayman Islands law provides that dividends may only be paid by the Issuer if the Issuer has funds lawfully available for such purpose. Dividends may be paid out of profit and/or out of the Issuer’s share premium account (which includes subscription monies in excess of the par value of each share); and the Issuer may pay dividends

provided that the Issuer is solvent (which term shall mean, able to pay its debts as they fall due in the ordinary course of business, after such distribution have been made).

Any amounts paid by the Preference Share Paying Agent as dividends or other distributions on the Preference Shares in accordance with the Priority of Payments will be payable only to the extent of the Issuer's distributable profits and/or share premium (determined in accordance with Cayman Islands law). In addition, such distributions will be payable only to the extent that the Issuer is solvent on the applicable Distribution Date and the Issuer will not be insolvent after such distributions are paid. Under Cayman Islands law, a company is generally deemed to be solvent if it is able to pay its debts as they fall due in the ordinary course of business.

To the extent the requirements under Cayman Islands law described in the preceding paragraph are not met, amounts otherwise payable to the Holders of the Preference Shares will be retained by the Issuer until, in the case of any payments by way of dividend, the next succeeding Distribution Date or (in the case of any payment that would otherwise be payable on a redemption date of the Preference Shares) the next succeeding Business Day on which the Issuer notifies the Preference Share Paying Agent that such requirements are met and, in the case of any payments by way of redemption of the Preference Share, the next succeeding Business Day on which the Issuer notifies the Preference Share Paying Agent that such requirements are met. Amounts so retained by the Issuer for payment to holders of the Preference Shares will not be available to pay amounts due to the Holders of the Notes, the Trustee, the Credit Default Swap Counterparty, the Hedge Counterparties or any other creditor of the Issuer whose claim is limited in recourse to the Collateral. However, such amounts may be subject to the claims of creditors of the Issuer that have not contractually limited their recourse to the Collateral. The Issuer does not expect to have any significant full recourse liabilities that would be payable out of any such amounts. The Indenture will limit the Issuer's recourse liabilities to those described in "The Co-Issuers—General".

Distributions on any Regulation S Global Preference Share will be made to the person in whose name such Preference Share is registered one Business Day prior to the applicable Distribution Date and distributions on any Restricted Preference Share will be made to the person in whose name such Preference Share is registered fifteen days prior to the applicable Distribution Date (each such date, a "Record Date"). Payments will be made by wire transfer in immediately available funds to a Dollar account maintained by the holder thereof appearing in the Preference Share Register in accordance with wire transfer instructions received from such holder by the Preference Share Paying Agent on or before the Record Date or, if no wire transfer instructions are received by the Preference Share Paying Agent, by a Dollar check drawn on a bank in the United States. Final distributions or payments made in respect of a Preference Share in the course of a winding up will be made only against surrender of the certificate evidencing such Preference Share at the office of the Preference Share Registrar, who will be appointed under the Preference Share Paying Agency Agreement. The Preference Share Registrar will communicate such distributions and payments and the related Distribution Date to the Issuer, the Preference Share Paying Agent, Euroclear and Clearstream, Luxembourg.

If on any Quarterly Distribution Date on or after the Quarterly Distribution Date in June 2007 up to and including the Quarterly Distribution Date occurring in March 2012, the Preference Shareholders have received distributions on the Preference Shares, as applicable, equal to or exceeding the Target Return I (after taking into account any distributions to be made in respect of the Preference Shares on such Distribution Date in accordance with the Priority of Payments), a portion of the remaining Interest Proceeds will be applied to pay principal, *pro rata*, of the Class D Notes, the Class E Notes and the Class F Notes in accordance with the Priority of Payments. See "Description of the Notes—Priority of Payments—Interest Proceeds".

If a Ratings Confirmation Failure occurs, funds that would otherwise be distributed to the Preference Shareholders (subject to the payment of certain other amounts prior thereto) will be used, on the first Distribution Date relating to the first Determination Date occurring thereafter in the manner set forth under "Ratings of the Notes—Ratings Confirmation Failure".

Governing Law

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

FORM, REGISTRATION AND TRANSFER OF SECURITIES

Regulation S Global Securities

Notes that are sold or transferred outside the United States to persons that are not U.S. Persons will be represented by one or more permanent global Notes (each a “Regulation S Global Note”). Preference Shares that are sold or transferred outside the United States to persons that are not U.S. Persons will be represented by one or more permanent global Preference Share (each a “Regulation S Global Preference Share” and, collectively with the Regulation S Global Notes, the “Regulation S Global Securities”) in definitive, fully registered form, without interest coupons, and deposited with the Trustee as custodian for, and registered in the name of DTC. By acquisition of a beneficial interest in a Regulation S Global Security, any purchaser thereof will be deemed to represent that (a) it is not a “U.S. Person” (as defined in Regulation S) and is purchasing such beneficial interest for its own account and not for the account or benefit of a U.S. Person and (b) if in the future it decides to transfer such beneficial interest, it will transfer such interest only in an offshore transaction in accordance with Regulation S or to a person who takes delivery in the form of a Restricted Security (or beneficial interest therein).

Restricted Global Notes

Notes that are sold or transferred to a U.S. Person or in the United States in reliance upon an exemption under Rule 144A of the Securities Act (“Rule 144A”) will be represented by one or more permanent global notes (“Restricted Global Notes” and, collectively with the Regulation S Global Securities, the “Global Securities”) in definitive, fully registered form, without interest coupons, and deposited with the Trustee as custodian for, and registered in the name of DTC or its nominee.

Restricted Definitive Notes

The Class E Notes and Class F Notes that are sold or transferred to Institutional Accredited Investors pursuant to an exemption from the registration requirements of the Securities Act, will be represented by certificates (“Restricted Definitive Notes”, as applicable) in definitive, fully registered form, registered in the name of the legal and beneficial owner thereof.

Restricted Preference Shares

Preference Shares that are sold or transferred to a U.S. Person or in the United States in reliance upon Rule 144A or, to Institutional Accredited Investors pursuant to a separate exemption from the registration requirements of the Securities Act, will be represented by certificates (“Restricted Preference Shares”, as applicable and, collectively with the Restricted Global Notes and the Restricted Definitive Notes “Restricted Securities”) in definitive, fully registered form, registered in the name of the legal and beneficial owner thereof.

Clearing Systems

Beneficial interests in each Global Security 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. Transfers between members of, or Participants in, DTC (each a “Participant”) 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 Bank S.A./N.V. (“Euroclear”) and Clearstream Banking, Luxembourg S.A. (“Clearstream, Luxembourg”) will be effected in the ordinary way in accordance with their respective rules and operating procedures. See “Clearing Systems”.

Transfer of Global Securities to Definitive Securities

Owners of beneficial interests in Global Securities will be entitled or required, as the case may be, under certain limited circumstances described under “Clearing System—Transfers and Exchanges for Definitive Securities”, to receive physical delivery of certificated Notes (“Definitive Notes”) or certificated Preference Shares (“Definitive Preference Shares” and, collectively with the Definitive Notes, “Definitive Securities”), in each case, in fully

registered, definitive form. However, no owner of an interest in a Regulation S Global Security will be entitled to receive a Definitive Security unless such person provides written certification that the Definitive Security is beneficially owned by a person that is not a U.S. Person or held for the account or benefit of a U.S. Person.

Transfer Restrictions

The Securities are subject to the restrictions on transfer set forth in this Offering Memorandum under “Transfer Restrictions” and the Indenture or the Preference Share Paying Agency Agreement, as applicable, and will bear a legend setting forth such restrictions. See “Transfer Restrictions”. The Issuer may impose additional restrictions on the transfer of Securities in order to comply with the USA PATRIOT Act, to the extent it is applicable to the Issuer.

Transfer and Exchange of Notes

Pursuant to the Indenture, LaSalle Bank National Association has been appointed and will serve as the registrar with respect to the Term 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 on behalf of the Issuer (the “Note Register”). Pursuant to the Class A-1 Note Purchase Agreement, LaSalle Bank National Association has been appointed and will serve as the registrar with respect to the Class A-1 Notes (in such capacity, the “Class A-1 Note Registrar”) and will provide for the registration of Class A-1 Notes and the registration of transfers of Class A-1 Notes in the register maintained by it on behalf of the Issuer (the “Class A-1 Note Register”).

No Note (or any interest therein) may be transferred to a transferee acquiring an interest in a Regulation S Global Note (as applicable) except (a) to a transferee that is acquiring such interest in an offshore transaction (within the meaning of Regulation S) in accordance with Regulation S, (b) to a transferee that is not a U.S. Person, (c) in compliance with the certification (if any) and other requirements set forth in the Indenture and (d) in accordance with any applicable securities laws of any State of the United States and any other relevant jurisdiction.

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

No Note (or any interest therein) may be transferred, and none of the Trustee and 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 pool of Collateral to register as an investment company under the Investment Company Act and (d) the transferee is able to make all applicable certifications and representations required by the relevant transfer certificate attached as an exhibit to the Indenture (if the Indenture requires that a transfer certificate be delivered in connection with such a transfer). Notwithstanding the foregoing, 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, but subject to certain deemed representations, warranties and agreements. See “Transfer Restrictions”.

The Indenture provides that if, notwithstanding the restrictions on transfer contained therein, the Issuer determines that any beneficial owner of a Note (or any interest therein) (A) is a U.S. Person and (B) is not both a Qualified Institutional Buyer, or, in the case of the Class E Notes and the Class F Notes, an Institutional Accredited Investor, and a Qualified Purchaser, then the Issuer may require, by notice to such holder, that such holder sell all of its right, title and interest to such Note (or any interest therein) to a person or entity that is both a Qualified Institutional Buyer, or, in the case of the Class E Notes and the Class F Notes, an Institutional Accredited Investor, and a Qualified Purchaser, with such sale to be effected within 30 days after notice of such sale requirement is given. If such beneficial owner fails to effect the transfer required within such 30-day period, (i) upon direction from the Issuer, the Trustee, on behalf of and at the expense of the Issuer, will cause such beneficial owner’s interest in such Note to be transferred in a commercially reasonable sale (conducted by the Trustee in accordance with Section 9-610(b) of the Uniform Commercial Code as in effect in the State of New York as applied to securities that

are sold on a recognized market or that may decline speedily in value) to a person or entity that certifies to the Trustee and the Co-Issuers, in connection with such transfer, that such person is both a Qualified Institutional Buyer, or, in the case of the Class E Notes and the Class F Notes, an Institutional Accredited Investor, and a Qualified Purchaser and (ii) pending such transfer, no further payments will be made in respect of such Note held by such beneficial owner.

Transfer and Exchange of Preference Shares

LaSalle Bank National Association has been appointed as transfer agent with respect to the Preference Shares (the “Preference Share Transfer Agent”).

Pursuant to the Preference Share Paying Agency Agreement, Maples Finance Limited (on behalf of the Issuer) has been appointed and will serve as the registrar with respect to the Preference Shares (in such capacity, the “Preference Share Registrar”) and will provide for the registration of Preference Shares and the registration of transfers of Preference Shares in the register maintained by it on behalf of the Issuer (the “Preference Share Register”). Written instruments of transfer are available at the office of the Preference Share Registrar.

No Preference Share may be transferred to a U.S. Person or within the United States except (a) to a transferee whom the seller reasonably believes is a Qualified Institutional Buyer, purchasing for its own account, to whom notice is given that the resale, pledge or other transfer is being made in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A or, an Institutional Accredited Investor pursuant to a separate exemption from the Securities Act, (b) to a transferee that is a Qualified Purchaser or is not a U.S. Person, (c) to a transferee that is not a Flow-Through Investment Vehicle (other than a Qualifying Investment Vehicle), (d) if such transfer is made in compliance with the certification and other requirements set forth in the Preference Share Paying Agency Agreement and (e) if such transfer is made in accordance with any applicable securities laws of any State of the United States and any other relevant jurisdiction. Without limiting the foregoing, no Preference Share may be transferred to a transferee acquiring an interest in a Regulation S Global Preference Share unless the transferee executes and delivers to the Issuer and Preference Share Paying Agent a letter in the form attached as an exhibit to the Preference Share Paying Agency Agreement to the effect that such transferee will not transfer any interest in Regulation S Global Preference Shares except in compliance with the purchase and transfer restrictions set forth in the Preference Share Paying Agency Agreement (including the requirement that any subsequent transferee execute and deliver such letter to the Issuer and Preference Share Paying Agent).

The Preference Share Paying Agency Agreement provides that if, notwithstanding the restrictions on transfer contained therein, the Issuer determines that any beneficial owner of a Regulation S Global Preference Share (or any interest therein) is a Benefit Plan Investor or a Controlling Person, then the Issuer may require, by notice to such holder, that such holder sell all of its right, title and interest to such Regulation S Global Preference Share (or any interest therein) to a person or entity that is not a Benefit Plan Investor or a Controlling Person and otherwise complies with all the transfer restrictions relating to such Preference Share set forth herein and in the Preference Share Paying Agency Agreement, with such sale to be effected within 30 days after notice of such sale requirement is given. If such beneficial owner fails to effect the transfer required within such 30-day period, (i) the Issuer will cause such beneficial owner’s interest in such Preference Share to be transferred in a commercially reasonable sale (conducted by the Preference Share Paying Agent in accordance with Section 9-610(b) of the Uniform Commercial Code as in effect in the State of New York as applied to securities that are sold on a recognized market or that may decline speedily in value) to a person that certifies to Issuer, in connection with such transfer, that such person is not a Benefit Plan Investor or a Controlling Person and otherwise complies with all the transfer restrictions relating to such Preference Share and (ii) pending such transfer, no further payments will be made in respect of such Preference Share held by such beneficial owner.

In addition, no Preference Share may be transferred to a person or entity acquiring an interest in a Regulation S Global Preference Share except (a) to a transferee that is acquiring such interest in an offshore transaction (within the meaning of Regulation S) in accordance with Regulation S, (b) to a transferee that is not a U.S. Person, (c) to a transferee that is not a Benefit Plan Investor or a Controlling Person, (d) if such transfer is made in compliance with the certification, if any, and other requirements set forth in the Preference Share Paying Agency Agreement and (e) if such transfer is made in accordance with any applicable securities laws of any State of the United States and any other relevant jurisdiction.

Transfers by a holder of a beneficial interest in a Regulation S Global Preference Share or a Restricted Preference Share to a transferee who takes delivery of a Restricted Preference Share will be made (a) in the case of a transfer by a holder of a beneficial interest in a Regulation S Global Preference Share, only in accordance with the Applicable Procedures and (b) in either case, upon receipt by the Preference Share Registrar of written certifications from each of the transferor and the transferee of such beneficial interest in the form provided in the Preference Share Paying Agency Agreement to the effect that, among other things, such transfer is being made:

(i) to a transferee that (A) is both (1) a Qualified Institutional Buyer, purchasing for its own account, to whom notice is given that the resale, pledge or other transfer is being made in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A or, an Institutional Accredited Investor pursuant to separate exemption from the Securities Act and (2) a Qualified Purchaser and (B) is not a Flow-Through Investment Vehicle (other than a Qualifying Investment Vehicle); and

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

USE OF PROCEEDS

The gross proceeds received from the issuance and sale of the Securities on the Closing Date and the net up-front payment received pursuant to the Closing Date Swap Agreement will be approximately U.S.\$340,000,000. The Class A-1 Notes will not be funded as of the Closing Date. The estimated total expenses relating to the issuance of the Notes, including, without limitation, organizational and structuring fees and expenses of the Co-Issuers (which includes, without limitation, certain structuring and other fees payable to CALYON and the Collateral Manager, the legal fees and expenses of counsel to the Co-Issuers, the Initial Purchasers, the Trustee and the Collateral Manager and the fees and expenses payable in connection with the ratings of the Notes), the expenses related to the warehousing arrangement and related documents, the expenses of offering the Offered Securities but excluding the initial deposits into the Expense Account and the Reserve Account, are approximately U.S.\$9,500,000 (the “Closing Date Expenses”). Accordingly, the net proceeds from the issuance and sale of the Offered Securities on the Closing Date and the up-front payment under the Closing Date Swap Agreement (assuming payment of the Closing Date Expenses) are expected to be approximately U.S.\$330,500,000. Such net proceeds will be used by the Issuer to (1) purchase or fund investments in (a) RMBS Securities, (b) CMBS Securities, (c) CDO Securities, (d) REIT Debt Securities, (e) Mortgage Finance Company Securities, (f) other Asset Backed Securities and (g) Synthetic Securities (including CDS Agreement Transactions entered into under the Credit Default Swap Agreement) the Reference Obligations of which will be Asset Backed Securities (including RMBS Securities, CMBS Securities or CDO Securities), ABX Index or REIT Debt Securities that, in each case, satisfy the investment criteria and the Investment Criteria described herein, (2) fund the initial deposit into the Reserve Account of approximately U.S.\$215,000,000 and (3) fund the initial deposit into the Expense Account of U.S.\$75,000. The Issuer will pay the Closing Date Expenses on the Closing Date to the extent the Issuer has received invoices therefor and, in the case of anticipated Closing Date Expenses with respect to which invoices have not been received by the Business Day prior to the Closing Date, make a deposit to the Closing Date Expense Reserve Account. Amounts remaining in the Closing Date Expense Reserve Account on the determination date related to the first Distribution Date will be transferred to the Reserve Account. On the Closing Date, it is expected that 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 95% of the Required Ramp-Up Amount. The Issuer expects that, no later than the Distribution Date occurring in June 2007, it will (a) have purchased or committed to purchase an aggregate par amount of Collateral Debt Securities, (b) have obtained exposure to an aggregate notional amount of Synthetic Securities (whether pursuant to CDS Agreement Transactions or otherwise), (c) have an aggregate amount standing to the credit of the Principal Collection Account and (d) have an Excess Notional Amount Liquidity, all in an aggregate amount at least equal to U.S.\$1,100,000,000 (the “Required Ramp-Up Amount”). Any such proceeds not invested in Collateral Debt Securities or deposited into the Expense Account or the Reserve Account will be deposited by the Trustee in the Collection Accounts and invested in Eligible Investments pending the use of such proceeds for the purchase of Collateral Debt Securities, as described herein, and, in certain limited circumstances described herein, for the payment of the Notes. See “Security for the Notes”.

RATINGS OF THE NOTES

Closing Date Ratings

It is a condition to the issuance of the Securities that the Class A-1 Notes be rated “AAA” by Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc. (“Standard & Poor’s”), “Aaa” by Moody’s Investors Service, Inc. (“Moody’s”) and “AAA” by Fitch, Inc. (“Fitch” and, together with Standard & Poor’s and Moody’s, the “Rating Agencies”), that the Class A-2 Notes be rated “AAA” by Standard & Poor’s, “Aaa” by Moody’s and “AAA” by Fitch, that the Class B Notes be rated at least “AA” by Standard & Poor’s, “Aa2” by Moody’s and “AA” by Fitch, that the Class C Notes be rated at least “A” by Standard & Poor’s, “A2” by Moody’s and “A” by Fitch, that the Class D Notes be rated at least “BBB” by Standard & Poor’s, “Baa2” by Moody’s and “BBB” by Fitch, that the Class E Notes be rated at least “BBB-” by Standard & Poor’s, “Baa3” by Moody’s and “BBB-” by Fitch and that the Class F Notes be rated at least “BBB-” by Standard & Poor’s, “Baa3” by Moody’s and “BBB-” by Fitch. The Preference Shares will not be rated. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

Standard & Poor’s

Standard & Poor’s will rate the Notes in a manner similar to the manner in which it rates other structured issues. The ratings assigned to the Class A Notes and the Class B Notes by Standard & Poor’s address the likelihood of the timely payment of interest and ultimate payment of principal by the Stated Maturity. The ratings assigned to the Class C Notes, the Class D Notes, the Class E Notes and the Class F Notes by Standard & Poor’s address the likelihood of the ultimate payment of interest and principal by the Stated Maturity.

Standard & Poor’s analysis includes the application of its proprietary default expectation computer model, the Standard & Poor’s CDO Monitor (which will be provided to the Collateral Manager), which is used to estimate the default rate the portfolio is likely to experience. The Standard & Poor’s CDO Monitor calculates the projected 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. The Standard & Poor’s CDO Monitor takes into consideration the rating of each issuer or obligor, the number of issuers or obligors, the issuer or obligor industry concentration and the remaining weighted average maturity of each of the Collaterals Debt Securities and Eligible Investments included in the portfolio. The risks posed by these variables are accounted for by effectively adjusting the necessary default level needed to achieve a desired rating. The higher the desired rating, the higher the level of defaults the portfolio must withstand.

Credit enhancement to support a particular rating is then provided based, in part, on the results of the Standard & Poor’s CDO Monitor, as well as other more qualitative considerations such as legal issues and management capabilities. Credit enhancement is typically provided by a combination of overcollateralization/subordination, cash collateral/reserve account, excess spread/interest and amortization. A transaction specific cash flow model (the “Transaction-Specific Cash Flow Model”) is used to evaluate the portfolio and determine whether it can withstand an estimated level of default while fully repaying the class of debt under consideration.

There can be no assurance that actual loss on the Collateral Debt Securities will not exceed those assumed in the application of the Standard & Poor’s CDO Monitor or that recovery rates and the timing of recovery with respect thereto will not differ from those assumed in the Transaction-Specific Cash Flow Model. Neither the Issuer or the Co-Issuer makes any representation as to the expected rate of defaults on the portfolio or as to the expected timing of any defaults that may occur.

Standard & Poor’s rating of the Notes will be established under various assumptions and scenario analyses. There can be no assurance, and the Collateral Manager makes no representation, that actual defaults on the Collateral Debt Securities will not exceed those in Standard & Poor’s analysis, or that recovery rates with respect thereto (and, consequently, loss rates) will not differ from those in Standard & Poor’s analysis.

Moody's

The ratings assigned to the Notes by Moody's are based upon its assessment of the probability that the Collateral Debt Securities will provide sufficient funds to pay the Notes, based largely upon Moody's statistical analysis of historical default rates on debt obligations with various ratings, expected recovery rates on the Collateral Debt Securities, the asset and interest coverage required for such Notes (which is achieved through the subordination of more junior Notes), and the diversification requirements that the Collateral Debt Securities must satisfy.

Moody's rating of the Notes addresses the ultimate cash receipt of all required interest and principal payments as provided in the governing documents. Moody's ratings are based on the expected loss posed to the holders of the Notes relative to the promise of receiving the present value, calculated using a discounted rate equal to the promised interest rate of such payments. Moody's analyzes the likelihood that each debt obligation included in the portfolio will default, based on historical default rates for similar debt obligations, the historical volatility of such default rates (which increases as securities with lower ratings are added to the portfolio) and an additional default assumption to account for future fluctuations in defaults. Moody's then determines the level of credit protection necessary to achieve the expected loss associated with the rating of the structured securities, taking into account the potential recovery value of the Collateral Debt Securities and the expected volatility of the default rate of the portfolio based on the level of diversification by issuer and industry.

In addition to these quantitative tests, Moody's ratings take into account qualitative features of a transaction, including the experience of the Collateral Manager, the legal structure and the risks associated with such structure, its view as to the quality of the participants in the transaction and other factors that it deems relevant.

Fitch

The ratings assigned to the Notes by Fitch are based upon its assessment of the probability that the Collateral Debt Securities will provide sufficient funds to repay the principal amount of and interest in respect of the Notes, based largely upon Fitch's statistical analysis of the Collateral Debt Securities.

Fitch's ratings of the Notes were established under various assumptions and scenario analyses. There can be no assurance that actual defaults on the Collateral Debt Securities will not exceed those assumed by Fitch in its analysis or that recovery rates with respect thereto (and, consequently, loss rate) will not differ from those assumed by Fitch. None of Fitch, the Issuer, the Co-Issuer, the Collateral Manager or their respective affiliates makes any representation as to the expected rate of defaults on the portfolio of Collateral Debt Securities or as to the expected timing of any defaults that may occur.

Ratings Confirmation Failure

If either (i) Fitch downgrades any Class of Notes prior to the date 35 days after the delivery of the Ramp-Up Notice or (ii) Standard & Poor's or Moody's has provided written instruction that it will not confirm the ratings or the credit estimates assigned by it with respect to any Class of Notes to the Trustee prior to the date 35 days after the delivery of the Ramp-Up Notice, a "Ratings Confirmation Failure" will occur. In the event of a Ratings Confirmation Failure, then the Collateral Manager expects to propose to the Rating Agencies a plan intended for meeting the Rating Agencies' requirements to obtain a Ratings Confirmation (a "Proposed Plan"); otherwise, the Issuer will, to the extent that funds are available for such purpose in accordance with the Priority of Payments, *first*, make a deposit to the Reserve Account, until the Remaining Unfunded Class A-1 Commitment Amount has been reduced to zero and *second*, prepay principal of the Notes on the Distribution Date relating to the first Determination Date occurring thereafter, as and to the extent necessary for each Rating Agency to confirm that it has restored the credit estimates or ratings assigned by it on the Closing Date with respect to each such Class of Notes (and, pending such Ratings Confirmation on such Distribution Date, each subsequent purchase of any Collateral Debt Security will be subject to the satisfaction of the Rating Condition). See "Description of the Notes—Mandatory Redemption" and "—Priority of Payments".

To the extent required by applicable stock exchange rules, the Issuer will inform any such exchange on which any of the Offered Securities are listed if any rating assigned by Standard & Poor's or Moody's to any Class of Notes is reduced or withdrawn.

MATURITY, PREPAYMENT AND YIELD CONSIDERATIONS

The Stated Maturity of the Notes and the Scheduled Preference Shares Redemption Date is the Monthly Distribution Date occurring in March 2052, or, if such date is not a Business Day, the next following Business Day. The Notes will mature at the Stated Maturity unless redeemed or repaid prior thereto. However, the Average Lives of the Notes and the Effective Duration (as defined below) of the Preference Shares may be less than the number of years until the Stated Maturity. Based on the portfolio of Collateral Debt Securities that the Collateral Manager expects the Issuer to purchase by the Ramp-Up Completion Date, assuming (a) no Collateral Debt Securities default or are sold, (b) during the Reinvestment Period, Principal Proceeds are used by the Issuer to acquire additional Collateral Debt Securities, (c) any optional redemption of the Collateral Debt Securities occurs in accordance with their respective terms, (d) all outstanding Notes are redeemed pursuant to an Auction Call Redemption and (e) LIBOR for each future Interest Period equals the rate for such Interest Period based on the zero coupon swap curve, (i) the Average Life of the Class A-1 Notes would be approximately 7.3 years from the Closing Date, (ii) the Average Life of the Class A-2 Notes would be approximately 7.3 years from the Closing Date, (iii) the Average Life of the Class B Notes would be approximately 7.3 years from the Closing Date, (iv) the Average Life of the Class C Notes would be approximately 7.3 years from the Closing Date, (v) the Average Life of the Class D Notes would be approximately 6.6 years from the Closing Date, (vi) the Average Life of the Class E Notes would be approximately 6.6 years from the Closing Date, (vii) the Average Life of the Class F Notes would be approximately 4.7 years from the Closing Date and (viii) the Effective Duration of the Preference Shares would be approximately 4.4 years from the Closing Date. Such Average Lives of the Notes and the Effective Duration of the Preference Shares are presented for illustrative purposes only. Although the Collateral Manager prepared the list identifying the portfolio of Collateral Debt Securities that it expects the Issuer to purchase by the Ramp-Up Completion Date based upon its expertise as a manager of such securities, the assumed identity of the portfolio purchased by the Issuer and the other assumptions used to calculate such Average Lives of the Notes and the Effective Duration of the Preference Shares are necessarily arbitrary, do not necessarily reflect historical experience with respect to securities similar to the Collateral Debt Securities and do not constitute a prediction with respect to the rates or timing of receipts of Interest Proceeds or Principal Proceeds, the acquisition of Collateral Debt Securities prior to the Ramp-Up Completion Date, defaults, recoveries, sales, reinvestments, prepayments or optional redemptions to which the Collateral Debt Securities may be subject. Actual experience as to these matters will differ, and may differ materially, from that assumed in calculating the illustrative Average Lives and the Effective Duration set forth above, and consequently the actual Average Lives of the Notes and the Effective Duration of the Preference Shares will differ, and may differ materially, from those set forth above. Accordingly, prospective investors should make their own determinations of the expected weighted Average Lives and maturity of the Notes and the Effective Duration of the Preference Shares and, accordingly, their own evaluation of the merits and risks of an investment in the Notes or the Preference Shares. See “Risk Factors—Projections, Forecasts and Estimates”.

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

The “Effective Duration” is the weighted average term to maturity (expressed in years) of the cash flows in respect of the Preference Shares, where the weights are the present values of each cash flow as a percentage of the present value of all cash flows to the Preference Shareholders. The cash flows are discounted at the internal rate of return to the Preference Shareholders for that scenario.

The Average Lives of the Notes 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 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 was incorporated as an exempted company with limited liability and registered on January 2, 2007 in the Cayman Islands with corporation number 179715 pursuant to the Issuer Charter and is in good standing under the laws of the Cayman Islands. The registered office of the Issuer is at the offices of Maples Finance Limited, Queensgate House, P.O. Box 1093 GT, South Church Street, George Town, Grand Cayman, Cayman Islands, telephone number: (345) 945-7099. The Issuer has no prior operating experience other than in connection with the acquisition of certain Collateral Debt Securities prior to the issuance of the Offered Securities and the entering into of arrangements with respect thereto, and the Issuer will not have any substantial assets other than the Collateral pledged to secure the Notes, the Issuer's obligations under any Hedge Agreement and the Issuer's obligations to the Trustee. The entire authorized share capital of the Issuer will consist of (a) 250 ordinary shares, par value U.S.\$1.00 per share (the "Ordinary Shares"), which have been or will be issued and will be held in trust for charitable purposes by Maples Finance Limited, a licensed trust company incorporated in the Cayman Islands (in such capacity, the "Share Trustee") under the terms of a declaration of trust (the "Declaration of Trust") and (b) 38,000 Preference Shares, par value U.S.\$0.01 per share with an aggregate liquidation preference of U.S.\$1,000 per share. Under the Declaration of Trust the Share Trustee holds the Shares in trust until the Termination Date (as defined in the Declaration of Trust) and may only dispose or otherwise deal with the Shares with the approval of the Trustee for so long as there are Notes outstanding. Prior to the Termination Date, the trust is an accumulation trust, but the Share Trustee has power with the consent of the Trustee, to benefit the Noteholders or Qualified Charities (as defined in the Declaration of Trust). It is not anticipated that any distribution will be made while any Note is outstanding. Following the Termination Date, the Share Trustee will wind up the trust and make a final distribution to charity. The Share Trustee will have no beneficial interest in and derive no benefit other than its fees from its holding of the Ordinary Shares.

Paragraph 3 of the Issuer Charter sets out the objects of the Issuer, which are unrestricted and therefore include the business to be undertaken by the Issuer as set forth herein. However, the Indenture will restrict the activities of the Issuer to (1) acquiring and disposing of, and investing and reinvesting in, Collateral Debt Securities, Equity Securities, Reserve Account Investments, U.S. Agency Securities and Eligible Investments for its own account, (2) entering into and performing its obligations under the Indenture, any Hedge Agreement, the Credit Default Swap Agreement, the Collateral Management Agreement, the Collateral Administration Agreement, the Securities Purchase Agreement, the Preference Share Paying Agency Agreement and each Subscription Agreement, (3) issuing and selling the Offered Securities, (4) pledging the Collateral as security for its obligations in respect of the Notes and otherwise for the benefit of the Secured Parties, (5) owning the membership interests in the Co-Issuer and (6) other activities incidental to the foregoing. The Issuer will be liquidated, and all CDS Agreement Transactions that have not yet terminated will be terminated, on the date that is one year and two days after the Stated Maturity of the Notes, unless earlier dissolved and terminated in accordance with the terms of the Issuer Charter. The Issuer has no employees and no subsidiaries other than the Co-Issuer. See "Description of the Preference Shares—Dissolution; Liquidating Distributions".

The Co-Issuer was organized on January 9, 2007 under the law of the State of Delaware with the registered number 4281432. The registered office of the Co-Issuer is at Donald J. Puglisi, Puglisi & Associates, 850 Library Avenue, Suite 204, Newark, Delaware 19711. The Co-Issuer has no prior operating history. The Issuer will be the sole member of the Co-Issuer. The Issuer will appoint Donald J. Puglisi, a retired finance professor at the University of Delaware, as sole manager of the Co-Issuer. Section 4 of the Co-Issuer's Limited Liability Company Agreement sets out the purpose of the Co-Issuer, which is exclusively to act as Co-Issuer of the Notes.

The Notes are obligations only of the Co-Issuers, the Preference Shares constitute an equity interest in the Issuer only and none of the Notes and Preference Shares is an obligation of or constituting any interest in the Trustee, the Share Trustee, the Administrator, the Collateral Manager, the Initial Purchasers or any of their respective Affiliates or any directors or officers of the Co-Issuers. Since the respective dates of incorporation of the Co-Issuers, the Co-Issuers have not commenced operations and no annual accounts or reports have been prepared as of the date of the prospectus.

Maples Finance Limited will act as the administrator (in such capacity, the “Administrator”) of the Issuer. The office of the Administrator will serve as the general business office of the Issuer. Through this office and pursuant to the terms of an agreement by and between the Administrator and the Issuer (the “Administration Agreement”), the Administrator will perform various administrative 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 activities of the Administrator under the Administration Agreement will be subject to the overview of the Board of Directors of the Issuer. The directors of the Issuer are Hugh Thompson and Cleveland Stewart, each of whom is a director or officer of the Administrator and each of whose offices are at Queensgate House, South Church Street, George Town, Grand Cayman, Cayman Islands. The Administration Agreement may be terminated by either the Issuer (acting upon the recommendation of the Collateral Manager) or the Administrator upon three months’ written notice, in which case a replacement administrator will be appointed or upon 14 days’ written notice upon the occurrence of certain events as set out in the Administration Agreement.

Capitalization

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

	<u>As of the Closing Date</u>
Class A-1 Notes	U.S.\$0.00
Class A-2 Notes	U.S.\$77,500,000.00
Class B Notes	U.S.\$74,000,000.00
Class C Notes	U.S.\$49,000,000.00
Class D Notes	U.S.\$44,000,000.00
Class E Notes	U.S.\$34,000,000.00
Class F Notes	U.S.\$13,230,283.50
Total Debt	U.S.\$291,730,283.50
Ordinary Shares	U.S.\$250.00
Preference Shares	U.S.\$13,269,716.50 ¹
Total Capitalization	<u>U.S.\$305,000,250.00</u>

The Issuer will not have any material assets other than the Collateral and its equity interest in the Co-Issuer.

The Co-Issuer will be capitalized only to the extent of its membership interests, will have no assets other than the capital contribution made by 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 Co-Issuer’s limited liability company membership interests, the authorized equity of the Co-Issuer is \$10.00.

The Issuer is not required by Cayman Islands law, and the Issuer does not intend, to publish annual reports and accounts. The Co-Issuer is not required by Delaware State law, 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 confirmation, on an annual basis, that to the best of its knowledge following review of the activities for the prior year, no Default or other matter required to be brought to the Trustee’s attention has occurred or, if one has, specifying the same.

¹ Represents the approximate proceeds from issuance of the Preference Shares rather than the aggregate liquidation preference of U.S.\$38,000,000.

SECURITY FOR THE NOTES

General

The Collateral securing the Notes will consist of: (i) the Collateral Debt Securities and Equity Securities; (ii) the rights of the Issuer under the Hedge Agreements; (iii) the Payment Account, the Interest Collection Account, the Principal Collection Account, the Interest Equalization Account, the Expense Account, the Interest Reserve Account, the Reserve Account, the Closing Date Expense Reserve Account, the Custodial Account, any Issuer Collateral Account, any Asset Hedge Account and each Hedge Counterparty Collateral Account and Reserve Account Investments, Eligible Investments and U.S. Agency Securities purchased with funds on deposit in such accounts; (iv) the Issuer's right to any investment income in any Synthetic Security Counterparty Account or Asset Hedge Account; (v) the rights of the Issuer under the Preference Share Paying Agency Agreement, the Collateral Management Agreement, the Credit Default Swap Agreement, the Class A-1 Note Purchase Agreement, the Closing Date Swap Agreement, the Collateral Administration Agreement, the Securities Purchase Agreement and the Subscription Agreements; (vi) all cash delivered to the Trustee; and (vii) all proceeds of the foregoing (collectively, the "Collateral"). In the event of any realization on the Collateral, proceeds will be allocated to the payment of each Class of Notes in accordance with the respective priorities established by the Priority of Payments.

Investment Criteria

The Issuer may (a) purchase Asset-Backed Securities, REIT Debt Securities and Mortgage Finance Company Securities or enter into Synthetic Securities on the Closing Date, (b) during the Reinvestment Period (and after the Reinvestment Period, in respect of commitments entered into prior to the end of the Reinvestment Period), apply Excess Notional Amount Liquidity (to the extent of Reserve Account Investments), Principal Proceeds and Sale Proceeds received during the Reinvestment Period to purchase or enter into Asset-Backed Securities, REIT Debt Securities, Mortgage Finance Company Securities or Defeased Synthetic Securities and (c) during the Reinvestment Period (and after the Reinvestment Period, in respect of commitments entered into prior to the end of the Reinvestment Period), apply any Excess Notional Amount Liquidity to enter into additional CDS Agreement Transactions, in each case only if, after giving effect to such investment on the trade date, each of the following criteria (the "Eligibility Criteria") and the Concentration Limitations set forth below (the Eligibility Criteria and the Concentration Limitations shall be referred to herein as the "Investment Criteria"), subject to the paragraphs below, are satisfied:

- | | |
|----------------------------|---|
| Assignable | (1) the Underlying Instrument pursuant to which such security was issued permits the Issuer to purchase it and pledge it to the Trustee and such security is a type subject to Article 8 or Article 9 of the UCC; |
|
Dollar | |
| Denominated | (2) such security is denominated and payable only in Dollars and may not be converted into a security payable in any other currency; |
|
Fixed Principal | |
| Amount | (3) such security requires the payment of a fixed amount of principal in cash no later than its stated maturity or termination date; |
| Rating | (4) (A) such security has been assigned (x) a rating of at least "BBB-" by Standard & Poor's, or a rating of at least "BBB-" by Fitch, or a rating of at least "Baa3" by Moody's and (y) a Moody's Rating of at least "Ba3" and (B) if such security meets the requirements in clause (A) but is rated below "BBB-" by Standard & Poor's (if rated by Standard & Poor's), or rated below "Baa3" by Moody's (if rated by Moody's), or rated below "BBB-" by Fitch (if rated by Fitch), then the Aggregate Principal Balance of all such Collateral Debt Securities does not exceed 5.0% of the Net Outstanding Portfolio Collateral Balance; |

Issuer or Obligor not Owned or**Managed by the Collateral Manager..**

(5) the obligor on or issuer of such security is not a fund or other entity owned or managed by the Collateral Manager or any of its Affiliates;

Registered.....

(6) such security is Registered;

Tax Status: No withholding

(7) (A) such security does not provide for any payments which are or will be subject to deduction or withholding for or on account of any withholding or similar tax, unless the issuer of such security is required to make “gross up” payments that 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 been required; and (B) either (i) such security is issued by an entity that is treated as a corporation that is not a United States real property holding corporation as defined in Section 897(c)(2) of the Code for U.S. federal income tax purposes, (ii) such security is treated as indebtedness for U.S. federal income tax purposes and is not a United States real property interest as defined under Section 897 of the Code, or (iii) the Issuer has received advice from Cadwalader, Wickersham & Taft LLP or Clifford Chance US LLP, or an opinion of other nationally recognized U.S. tax counsel experienced in such matters to the effect that the acquisition, ownership or disposition of such security will not cause the Issuer to be treated as engaged in a trade or business within the United States for U.S. federal income tax purposes or otherwise subject the Issuer to U.S. federal income tax on a net income basis;

Excluded Securities.....

(8) such security (or the Reference Obligation of such Synthetic Security) is not a Defaulted Security, a Written Down Security, a Credit Risk Security, a Short Synthetic Security, a Catastrophe Bond, a Structured Settlement Security, a Tobacco Bond, a NIM Security, a Mutual Fund Fees Security, an Aircraft Leasing Security, an EETC Security, a Future Flow Security, a Healthcare Security, a Lottery Receivable Security, a Restaurant and Food Services Security, an ABS Natural Resource Receivable Security, a Recreational Vehicle Security, an ABS Container Security, an ABS Chassis Security, a Guaranteed Corporate Debt Security, a Car Rental Receivable Security, an Oil and Gas Security, a Project Finance Security, a Reinsurance Security, a Tax Lien Security, a CMBS Credit Tenant Lease Security, a CMBS Single Property Security, an Equity Security, an ABS Stadium Security, an ABS Franchise Security, a Principal Only Security or a security that accrues interest at a floating rate that moves inversely to a reference rate or index;

No Foreign Exchange**Controls.....**

(9) such security is not a security issued by an issuer located in 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.....

(10) such security and any Equity Security acquired in connection with such security is not Margin Stock;

No Debtor-in-Possession**Financing**

(11) such security is not a financing by a debtor in possession in any insolvency proceeding;

**Conversion or Exchange into
Equity Securities;**

Attached Equity Securities..... (12) (A) such security is not a security that by the terms of its Underlying Instruments provides for conversion or exchange (whether mandatory, at the option of the issuer or the holder thereof or otherwise) into equity capital at any time prior to its maturity and (B) such security is not purchased as a unit with an attached equity security;

Not subject to an Offer or a

Call for redemption..... (13) such security is not the subject of an Offer and has not been called for redemption;

No Future Advances

(14) after the acquisition of such security, the Issuer is not required by the Underlying Instruments related thereto to make any payment or advance to the issuer thereof or to the related Synthetic Security Counterparty (other than Credit Protection Payments and termination payments to the Credit Default Swap Counterparty) under the related Underlying Instruments (other than a Defeased Synthetic Security);

Floating Rate Collateral Debt

Securities; Deemed Floating

Rate Collateral Debt Securities..... (15) (A) if such security is a Deemed Floating Rate Collateral Debt Security, any Deemed Floating Asset Hedge Agreement entered into with respect to such Deemed Floating Rate Collateral Debt Security conforms to all requirements set forth in the definition of “Deemed Floating Asset Hedge Agreement”, (B) if such security is a Floating Rate Collateral Debt Security or Deemed Floating Rate Collateral Debt Security, such security bears interest (or, in the case of a Deemed Floating Rate Collateral Debt Security, performs as if it bears interest) at a spread in excess of LIBOR and (C) if such security is a Non-Libor Floating Rate Collateral Debt Security, such security adjusts according to an index described in the definition of Non-Libor Floating Rate Collateral Debt Securities; and

Collateral Quality Tests

(16) if such security is acquired on or after the Ramp Up Completion Date, (A) each of the Collateral Quality Tests is satisfied or, if immediately prior to such acquisition one or more of the Collateral Quality Tests was not satisfied, the extent of compliance with each such Collateral Quality Test will be maintained or improved and (B) other than with respect to securities acquired with proceeds or sale of Credit Risk Securities, Defaulted Securities and Equity Securities, the Standard & Poor’s CDO Monitor Notification Test is satisfied or, if immediately prior to such investment the Standard & Poor’s CDO Monitor Notification Test was not satisfied, the result is closer to compliance.

In addition to the Eligibility Criteria set forth above, the following requirements (the “Concentration Limitations”), subject to the paragraphs below, shall apply to the acquisition of Collateral Debt Securities:

Jurisdiction of

Issuer..... (a) the Aggregate Principal Balance of all Collateral Debt Securities with respect to which the obligor on or issuer thereof is not either (x) organized or incorporated under the law of the United States or a State thereof or in a Special Purpose Vehicle Jurisdiction or (y) a Qualifying Foreign Obligor, does not exceed 5.0% of the Net Outstanding Portfolio Collateral Balance;

Limitation on Stated**Final Maturity**

(b) (A) if the stated maturity of such security occurs later than the Stated Maturity of the Notes, the Aggregate Principal Balance of all such Collateral Debt Securities does not exceed 10.0% of the Net Outstanding Portfolio Collateral Balance, *provided* that (i) the legal final maturity of such Collateral Debt Securities will not be greater than 5 years after the Stated Maturity of the Notes and (ii) the expected maturity of such Collateral Debt Securities will not be later than the Stated Maturity of the Notes; and (B)(i) the Aggregate Principal Balance of all Collateral Debt Securities having an average life of less than 8 years is at least 60.0% of the Net Outstanding Portfolio Collateral Balance, (ii) subject to clause (iii), no Collateral Debt Security (other than a CDO Security) may have an average life in excess of 13.0 years, *provided* that up to 5.0% of the Net Outstanding Portfolio Collateral Balance may have an average life of greater than 13.0 years and (iii) no CDO Security may have an average life in excess of 10.0 years;

Investment Company Act.....

(c) the acquisition of such security would not cause the Issuer or the pool of Collateral to be required to register as an investment company under the Investment Company Act; and if the issuer of such security is excepted from the definition of an “investment company” solely by reason of Section 3(c)(1) of the Investment Company Act, then either (x) such security does not constitute a “voting security” for purposes of the Investment Company Act or (y) the aggregate principal amount of such security is less than 10.0% of the entire Issue of which such security is a part;

Fixed Rate Collateral Debt**Securities; Hybrid Securities.....**

(d) such security will not be a Fixed Rate Collateral Debt Security or a Hybrid Security that is currently paying interest at a fixed rate unless (A) such security is the Reference Obligation of a Synthetic Security and the aggregate Notional Amount of all such Collateral Debt Securities does not exceed 15.0% of the Net Outstanding Portfolio Collateral Balance or (B) such security is a Deemed Floating Rate Collateral Debt Security;

ABX Index.....

(e) if such security is an ABX Index Synthetic Security or a Tranch ABX Index Synthetic Security, the aggregate Notional Amount of all such Collateral Debt Securities does not exceed 5.0% of the Net Outstanding Portfolio Collateral Balance and the aggregate Notional Amount of any series of an ABX Index Synthetic Security or a Tranch ABX Index Synthetic Security does not exceed 2.0% of the Net Outstanding Portfolio Collateral Balance;

Deemed Floating**Rate Collateral Debt Securities.....**

(f) if such security is a Deemed Floating Rate Collateral Debt Security, the Aggregate Principal Balance of all such Collateral Debt Securities does not exceed 10.0% of the Net Outstanding Portfolio Collateral Balance;

Non-Libor Floating

Rate Collateral Debt Securities..... (g) if such security is a Non-Libor Floating Rate Collateral Debt Security, the Aggregate Principal Balance of all such Collateral Debt Securities does not exceed 5.0% of the Net Outstanding Portfolio Collateral Balance;

Pure Private Collateral Debt

Securities..... (h) if such security was not (A) issued pursuant to an effective registration statement under the Securities Act or (B) a privately placed security that is eligible for resale under Rule 144A or Regulation S under the Securities Act, the Aggregate Principal Balance of all such Collateral 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;

Downgraded Assets.....

(i) if such security, at the time of purchase by the Issuer, either (x) has been downgraded since the date of issuance thereof or (y) is on negative credit watch by Moody's, Standard & Poor's or Fitch for possible downgrade, (i) the Aggregate Principal Balance of all such Collateral Debt Securities does not exceed 5.0% of the Net Outstanding Portfolio Collateral Balance and (ii) such security at the time acquired by the Issuer is rated at least "BBB-" by Standard & Poor's, or at least "BBB-" by Fitch, or at least "Baa3" by Moody's (and if rated "BBB-" by Standard & Poor's, "BBB-" by Fitch or "Baa3" by Moody's, such rating is not on negative watch for possible downgrade); *provided* that the Issuer may not acquire any Collateral Debt Security that has been downgraded (I) by more than two subcategories by Standard & Poor's or Moody's from the original rating of such Collateral Debt Security by such Rating Agency or (II) more than once by Standard & Poor's and Moody's;

Single Servicer

(j) with respect to the Servicer of the security being acquired, the Aggregate Principal Balance of all Collateral Debt Securities serviced by such Servicer (together with the Aggregate Principal Balance of any Synthetic Securities the Reference Obligations of which are such securities) does not exceed (A) if such Servicer is rated "Strong" by Standard & Poor's or is a U.S. federal agency, 20.0% of the Net Outstanding Portfolio Collateral Balance (or, in the case of up to two such Servicers, 25.0% of the Net Outstanding Portfolio Collateral Balance), (B) if such Servicer is rated "Above Average" by Standard & Poor's, 15.0% of the Net Outstanding Portfolio Collateral Balance and (C) if such Servicer is rated other than "Strong" or "Above Average" by Standard & Poor's, or does not have a Standard & Poor's rating for Servicers, 7.5% of the Net Outstanding Portfolio Collateral Balance; *provided* that in the event of a merger or consolidation of any Servicer after the acquisition by the Issuer of a security that is serviced by such Servicer, such Servicer shall continue to be treated as separate Servicers for purposes of the Eligibility Criteria;

Synthetic Securities.....

(k) (a) the Aggregate Principal Balance of all Collateral Debt Securities that are Synthetic Securities (whether exposure to the related Reference Obligation is obtained through a CDS Agreement Transaction or otherwise) *plus* the Excess Notional Amount Liquidity is not less than 85.0% and not more than 95.0% of the Net Outstanding Portfolio Collateral Balance and (b) the Aggregate Principal Balance of

all Collateral Debt Securities that are not Synthetic Securities is not less than 5.0% and not more than 15.0% of the Net Outstanding Portfolio Collateral Balance; provided that if such security is a Synthetic Security, then (A) unless the Synthetic Security Counterparty's obligations under such Synthetic Security are fully collateralized pursuant to collateral arrangements that satisfy the Rating Condition or such Synthetic Security is a CDS Agreement Transaction, such Synthetic Security is acquired from a Synthetic Security Counterparty that satisfies (or with a guarantor that satisfies) the Synthetic Security Counterparty Ratings Requirement on the date of such grant, (B)(x) unless such Synthetic Security is a Form-Approved Synthetic Security, the Rating Condition with respect to each Rating Agency has been satisfied with respect to the acquisition of such Synthetic Security and (y)(i) unless such Synthetic Security is a Form-Approved Synthetic Security, each of the Rating Agencies has assigned an Applicable Recovery Rate to such Synthetic Security, (ii) Moody's will have assigned a Moody's Rating and Moody's Rating Factor to such Synthetic Security, (iii) Standard & Poor's will have assigned a Standard & Poor's Rating to such Synthetic Security and (iv) Fitch will have assigned a Fitch Rating and Fitch Rating Factor to such Synthetic Security, (C) if such Synthetic Security provides for any payment to be made by the Issuer after the acquisition thereof by the Issuer, it is either (x) a Defeased Synthetic Security or (y) a CDS Agreement Transaction, (D) if such Synthetic Security is a Defeased Synthetic Security, such security complies with the requirements of the definition of Defeased Synthetic Security and (E) if such Synthetic Security is a CDS Agreement Transaction, the acquisition of such Synthetic Security will not result in a reduction of the Excess Notional Amount Liquidity below zero (or, if the Excess Notional Amount Liquidity is less than zero at the time of such acquisition, the acquisition of such Synthetic Security would not result in any further decrease of the Excess Notional Amount Liquidity);

Specified Type – Minority

ABS Securities

(l) if such security is a Minority ABS Security, (A) with respect to the particular Specified Type of Minority ABS Security being acquired, the Aggregate Principal Balance of all Collateral Debt Securities consisting of each Specified Type of Minority ABS Security (together with the Aggregate Principal Balance of any Synthetic Securities the Reference Obligations of which are such securities) does not exceed 3.0% of the Net Outstanding Portfolio Collateral Balance; (B) the Aggregate Principal Balance of all Collateral Debt Securities that are Minority ABS Securities does not exceed 8.0% of the Net Outstanding Portfolio Collateral Balance; and (C) such Minority ABS Security will be assigned a rating of least "A-" by Standard & Poor's, or a rating of at least "A-" by Fitch, or at rating of at least "A3" by Moody's;

Specified Type – Majority

ABS Securities

(m) if such security is a Majority ABS Security:

(i) with respect to Equipment Leasing Securities, (A) the Aggregate Principal Balance of all such Collateral 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 and (B) such

Collateral Debt Security will have been assigned a rating of at least “BBB” by Standard & Poor’s, or a rating of at least “BBB” by Fitch, or a rating of at least “Baa2” by Moody’s;

(ii) with respect to CMBS Securities, (A) the Aggregate Principal Balance of all such Collateral Debt Securities (together with the Aggregate Principal Balance of any Synthetic Securities the Reference Obligations of which are such securities) does not exceed 15.0% of the Net Outstanding Portfolio Collateral Balance, (B) the Aggregate Principal Balance of all Collateral Debt Securities that are CMBS Conduit Securities (together with the Aggregate Principal Balance of any Synthetic Securities the Reference Obligations of which are such securities) does not exceed 15.0% of the Net Outstanding Portfolio Collateral Balance, (C) the Aggregate Principal Balance of all Collateral Debt Securities that are CMBS Large Loan 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; *provided* that (1) each CMBS Large Loan Security will be assigned a rating of at least “BBB” by Standard & Poor’s, or a rating of at least “BBB” by Fitch, or a rating of at least “Baa2” by Moody’s and (2) the percentage of the Net Outstanding Portfolio Collateral Balance comprised of Collateral Debt Securities that are CMBS Large Loan Securities that have not been assigned a rating of at least “A-” by Standard & Poor’s, or a rating of at least “A-” by Fitch, or a rating of at least “A3” by Moody’s does not exceed 2.5% and (D) the Aggregate Principal Balance of all Collateral Debt Securities that are CRE CDO Securities (together with the Aggregate Principal Balance of any Synthetic Securities the Reference Obligations of which are such securities) does not exceed 7.5% of the Net Outstanding Portfolio Collateral Balance, *provided* that the percentage of the Net Outstanding Portfolio Collateral Balance comprised of Collateral Debt Securities that are CRE CDO Securities that have not been assigned a rating of at least “A3” by Moody’s, or a rating of at least “A-” by Standard & Poor’s or a rating of at least “A-” by Fitch does not exceed 5.0%;

(iii) with respect to Automobile Securities, (A) the Aggregate Principal Balance of all such Collateral Debt Securities (together with the Aggregate Principal Balance of any synthetic securities the Reference Obligations of which are such securities) does not exceed 10.0% of the Net Outstanding Portfolio Collateral Balance and (B) such security will have been assigned a rating of at least “BBB” by Standard & Poor’s, or a rating of at least “BBB” by Fitch, or a rating of at least “Baa2” by Moody’s;

(iv) with respect to REIT Debt Securities, (A) the Aggregate Principal Balance of all such Collateral Debt Securities (together with the Aggregate Principal Balance of any Synthetic Securities the Reference Obligations of which are such securities) does not exceed 3.0% of the Net Outstanding Portfolio Collateral Balance and (B) such security will have been assigned a rating of at least “BBB” by Standard & Poor’s, or a rating of at least “BBB” by Fitch, or a rating of at least “Baa2” by Moody’s;

(v) with respect to Credit Card Securities, (A) the Aggregate Principal Balance of all such Collateral Debt Securities (together with the

Aggregate Principal Balance of any Synthetic Securities the Reference Obligations of which are such securities) does not exceed 10.0% of the Net Outstanding Portfolio Collateral Balance and (B) such security will have been assigned a rating of at least “BBB” by Standard & Poor’s, or a rating of at least “BBB” by Fitch, or a rating of at least “Baa2” by Moody’s;

(vi) with respect to Small Business Loan Securities, (A) the Aggregate Principal Balance of all Collateral Debt Securities that are Small Business Loan 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) such security will have been assigned a rating of at least “BBB” by Standard & Poor’s, or a rating of at least “BBB” by Fitch, or a rating of at least “Baa2” by Moody’s;

(vii) with respect to Student Loan Securities, the Aggregate Principal Balance of all such Collateral 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; and

(viii) with respect to CDO Securities (or any Synthetic Securities the Reference Obligations of which are CDO Securities), (A) the Aggregate Principal Balance of all such Collateral Debt Securities (together with the aggregate Notional Amount of any Synthetic Securities the Reference Obligations of which are such securities) does not exceed 10.0% of the Net Outstanding Portfolio Collateral Balance, (B) the Aggregate Principal Balance of all such Collateral Debt Securities issued by any single issuer does not exceed 1.5% of the Net Outstanding Portfolio Collateral Balance, (C) such Collateral Debt Security will have been assigned a rating of at least “Baa2” by Moody’s (if rated by Moody’s), and a rating of at least “BBB” by Standard & Poor’s (if rated by Standard & Poor’s) and a rating of at least “BBB” by Fitch (if rated by Fitch), (D) the percentage of the Net Outstanding Portfolio Collateral Balance comprised of Collateral Debt Securities that are CDO Securities that have not been assigned a rating of higher than “BBB+” by Standard & Poor’s, or a rating of higher than “BBB+” by Fitch, or a rating of higher than “Baa1” by Moody’s does not exceed 7.5%, (E) if such CDO Security is an HG ABS CDO Security, (i) it is part of a class of securities that is no lower than the third-lowest in terms of subordination with respect to all other issued classes of securities, (ii) such CDO Security will have a rating of at least “A” by Standard & Poor’s (if rated by Standard & Poor’s), a rating of at least “A” by Fitch (if rated by Fitch) and a rating of at least “A2” by Moody’s (if rated by Moody’s) and (iii) the Aggregate Principal Amount of all such CDO Securities will not exceed 5.0% of the Net Outstanding Portfolio Collateral Balance, (F) the Aggregate Principal Balance of all such Collateral Debt Securities managed by any single collateral manager does not exceed 2.5% of the Net Outstanding Portfolio Collateral Balance; *provided* that no CDO Securities are managed by the Collateral Manager;

PIK Bonds (n) if such security is a PIK Bond (excluding CDO Securities and Negative Amortization Securities), the Aggregate Principal Balance of all such Collateral Debt Securities (together with the Aggregate

Principal Balance of any Synthetic Securities the Reference Obligations of which are such securities) does not exceed 0.0% of the Net Outstanding Portfolio Collateral Balance;

Interest Paid Less Frequently

than Quarterly.....

(o) unless such security is a Zero Coupon Bond, if such security provides for periodic payments of interest in cash less frequently than monthly, such security is (A) included on the Interest Reserve Schedule, (B) the Aggregate Principal Balance of all such Collateral Debt Securities that provide for periodic payments of interest in cash less frequently than quarterly does not exceed 5.0% of the Net Outstanding Portfolio Collateral Balance and (C) the Aggregate Principal Balance of all Collateral Debt Securities that provide for periodic payments of interest in cash less frequently than monthly is not more than 7.5% of the Net Outstanding Portfolio Collateral Balance;

Interest Only Securities.....

(p) if such security is an Interest Only Security, (A) such Collateral Debt Security must be purchased solely with Interest Proceeds, (B) such Collateral Debt Security must be assigned a rating of “Aaa” by Moody’s and (C) the Aggregate Principal Balance of all such Collateral Debt Securities does not exceed 2.0% of the Net Outstanding Portfolio Collateral Balance;

Number of Assets.....

(q) the aggregate number of Collateral Debt Securities is not less than 127;

Certain Issuer Concentrations.....

(r) with respect to all Collateral Debt Securities acquired by the Issuer:

(i) the Aggregate Principal Balance of all such Collateral Debt Securities assigned a rating of at least “Aa3” by Moody’s, or a rating of at least “AA-” by Standard & Poor’s, or a rating of least “AA-” by Fitch issued by any single issuer (including Collateral Debt Securities issued by any such single issuer in separate series) does not exceed 1.875% of the Net Outstanding Portfolio Collateral Balance;

(ii) the Aggregate Principal Balance of all such Collateral Debt Securities assigned a rating of “A1”, “A2” or “A3” by Moody’s, or a rating of “A+”, “A” or “A-” by Standard & Poor’s, or a rating of “A+”, “A” or “A-” by Fitch issued by any single issuer does not exceed 1.25% of the Net Outstanding Portfolio Collateral Balance; *provided* that to the extent any such Collateral Debt Security meets the ratings criteria contained in clause (i) above, it will count towards the percentage limitation contained therein and will not count towards the percentage limitation contained in this clause (ii);

(iii) the Aggregate Principal Balance of all such Collateral Debt Securities assigned a rating of “Baa1”, “Baa2” or “Baa3” by Moody’s, or a rating of “BBB+”, “BBB” or “BBB-” by Standard & Poor’s, or a rating of “BBB+”, “BBB” or “BBB-” by Fitch, issued by any single issuer does not exceed 1.0% of the Net Outstanding Portfolio Collateral Balance; *provided* that to the extent any such Collateral Debt Security meets the ratings criteria contained in clause (i) or (ii) above, it will count towards the percentage limitation contained in the clause associated with the highest rating and will not count towards the percentage limitation contained in this clause (iii); and

- RMBS Securities** (s) (A) the Aggregate Principal Balance of all Collateral Debt Securities that are not RMBS Prime Mortgage Securities, RMBS Mid-Prime Mortgage Securities, RMBS Subprime Mortgage Securities or Home Equity Loan Securities does not exceed 20.0% of the Net Outstanding Portfolio Collateral Balance, (B) the Aggregate Principal Balance of all Collateral Debt Securities that are RMBS Prime Mortgage Securities does not exceed 40.0% of the Net Outstanding Portfolio Collateral Balance, (C) the Aggregate Principal Balance of all Collateral Debt Securities that are RMBS Mid-Prime Mortgage Securities does not exceed 65.0% of the Net Outstanding Portfolio Collateral Balance, (D) the Aggregate Principal Balance of all Collateral Debt Securities that are RMBS Subprime Mortgage Securities does not exceed 60.0% of the Net Outstanding Portfolio Collateral Balance, (E) the Aggregate Principal Balance of all Collateral Debt Securities that are RMBS Second Lien Securities does not exceed 5.0% of the Net Outstanding Portfolio Collateral Balance, (F) the Aggregate Principal Balance of all Collateral Debt Securities that are not either RMBS Securities, CDO Securities or CMBS Securities (or Synthetic Securities the Reference Obligations of which are such securities) does not exceed 10.0% of the Net Outstanding Portfolio Collateral Balance and (G) the Aggregate Principal Balance of all such 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 7.5% of the Net Outstanding Portfolio Collateral Balance; *provided* that, in each case, in calculating the foregoing percentages the Collateral Manager may include any Collateral Debt Security to be purchased within 30 days of the sale of any RMBS Mid-Prime Mortgage Security, RMBS Subprime Mortgage Security or Home Equity Loan Security, as the case may be;
- Cap Corridor RMBS Securities** (t) if such security is a Cap Corridor RMBS Security, the Aggregate Principal Balance of all such Collateral Debt Securities does not exceed 3.0% of the Net Outstanding Portfolio Collateral Balance.
- Hybrid Securities** (u) if such security is a Hybrid Security, the Aggregate Principal Balance of all such Collateral Debt Securities does not exceed 5.0% of the Net Outstanding Portfolio Collateral Balance.
- Step-Up Securities** (v) if such security is a Step-Up Security, the Aggregate Principal Balance of all such Collateral Debt Securities does not exceed 5.0% of the Net Outstanding Portfolio Collateral Balance.
- Step-Down Securities** (w) if such security is a Step-Down Security, the Aggregate Principal Balance of all such Collateral Debt Securities does not exceed 2.0% of the Net Outstanding Portfolio Collateral Balance.
- Zero Coupon Bonds** (x) if such security is a Zero Coupon Bond, the Aggregate Principal Balance of all such Collateral Debt Securities does not exceed 2.0% of the Net Outstanding Portfolio Collateral Balance.

provided that, in the case of paragraph (4) of the Eligibility Criteria and paragraphs (a), (b), (d) through (j), (l) through (p) and (s) through (x) of the Concentration Limitations above, if prior to such investment the Investment Criteria is not satisfied, the Investment Criteria will be deemed to be satisfied if, after giving effect to such investment, the extent of compliance with the Investment Criteria is maintained or improved.

Each calculation made to determine compliance with the Investment Criteria above will be made with the assumption that the Net Outstanding Portfolio Collateral Balance will remain unchanged by the sale or purchase of the applicable Collateral Debt Security and substitute Collateral Debt Security.

Each percentage requirement in paragraph (4) of the Eligibility Criteria and paragraphs (a), (b), (d) through (j), (l) through (p) and (s) through (x) of the Concentration Limitations above is based on the assumption that the Net Outstanding Portfolio Collateral Balance of the Collateral Debt Securities is equal to the Required Ramp-Up Amount.

With regard to a Synthetic Security (including an ABX Index Synthetic Security) the requirements set forth in the Investment Criteria will apply to the applicable underlying Reference Obligation rather than the Synthetic Security itself (except that paragraph (7) of the Eligibility Criteria will apply to the underlying Reference Obligation and the Synthetic Security and paragraphs (e) and (k) of the Concentration Limitations which will apply to the Synthetic Security). An ABX Synthetic Security will have the characteristics of each obligor referenced in the index (except with respect to the calculation of the Weighted Average Premium/Spread Test); *provided* that the characteristics of any such underlying reference obligation for which the Issuer has entered into an ABX Index Hedge Agreement pursuant to which the Issuer eliminates all or a portion of its credit exposure to an obligor will not be taken into account for purposes of the Collateral Quality Tests but, in the case of an ABX Hedge Agreement pursuant to which the Issuer eliminates only a portion of its credit exposure, the characteristics of the related underlying reference obligation will be disregarded only to the extent of the notional amount related to such underlying reference obligation in connection with such ABX Hedge Agreement.

If the Issuer has previously entered into a commitment to acquire an obligation or security for inclusion in the Collateral, then the Investment Criteria other than those described in paragraphs (6) and (7) of the Eligibility Criteria need not be satisfied (x) on the date of such acquisition if the Investment Criteria were satisfied on the date on which the Issuer entered into such commitment or (y) on the date on which the Issuer entered into such commitment if the Investment Criteria were or will be satisfied on the date of such acquisition. However, the Issuer may only enter into commitments to acquire securities for inclusion in the Collateral if such commitments to acquire securities do not extend beyond a 60-day period.

During the Reinvestment Period, the Collateral Manager will use reasonable commercial efforts to cause the Issuer to reinvest any Principal Proceeds received during a Due Period in substitute Collateral Debt Securities during the same Due Period in which such Principal Proceeds are received (or, if later, the date by which the Issuer is required to reinvest proceeds received in connection with the disposition of a Collateral Debt Security as described under “—Dispositions of Collateral Debt Securities”).

Notwithstanding the foregoing provisions, (A) cash on deposit in the Collection Accounts may be invested in Eligible Investments, pending investment in Collateral Debt Securities and (B) if an Event of Default will have occurred and be continuing, no Collateral Debt Security may be acquired unless it was the subject of a commitment entered into by the Issuer prior to the occurrence of such Event of Default.

The Issuer may not acquire any Collateral Debt Security unless such acquisition is made on an “arm’s-length basis” for fair market value.

The Issuer and the Collateral Manager will observe certain additional restrictions and limitations on their activities and on the Collateral Debt Securities that may be purchased. Accordingly, although a particular prospective investment may satisfy the Investment Criteria, it may be ineligible for purchase by the Issuer and the Collateral Manager as a result of these limitations and restrictions.

Asset-Backed Securities

Most of the Collateral Debt Securities will consist of Asset-Backed Securities (or Synthetic Securities, including CDS Agreement Transactions, the Reference Obligations of which are Asset-Backed Securities), including, without limitation, Automobile Securities, Bank Guaranteed Securities, CDO Securities, CMBS Conduit Securities, CMBS Large Loan Securities, Credit Card Securities, Equipment Leasing Securities, Home Equity Loan Securities, Insurance Company Guaranteed Securities, Manufactured Housing Securities, RMBS Prime Mortgage Securities, RMBS Mid-Prime Mortgage Securities, RMBS Subprime Mortgage Securities, Small Business Loan

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

The collateral underlying Asset-Backed Securities includes assets such as credit card receivables, home equity loans, leases, commercial mortgage loans and debt obligations. Issuers of Asset-Backed Securities are primarily banks and finance companies, captive finance subsidiaries of non-financial corporations or specialized originators such as credit card lenders. Credit risk is an important issue in Asset-Backed Securities because of the significant credit risks inherent in the underlying collateral and because issuers are primarily private entities. Accordingly, Asset-Backed Securities generally include one or more credit enhancements that are designed to raise the overall credit quality of the security above that of the underlying collateral. Another important type of Asset-Backed Security is commercial paper issued by special-purpose entities. Asset-backed commercial paper is usually backed by trade receivables, though such conduits may also fund commercial and industrial loans. 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 sold in the form of securities to investors through an investment bank or other securities underwriter. Each Asset-Backed Security 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 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 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.

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 for Asset-Backed Securities. In addition, a credit-rating agency often will analyze the policies and

operations of the originator and servicer, as well as the structure, underlying pool of assets, expected cash flows and other attributes of the securities. Before assigning a rating to the issue, the rating agency will also assess the extent of loss protection provided to investors by the credit enhancements associated with the issue.

Although the basic elements of all Asset-Backed Securities are similar, individual transactions can differ markedly in both structure and execution. Important determinants of the risk associated with issuing or holding the securities include the process by which principal and interest payments are allocated and down-streamed to investors, how credit losses affect the trust and the return to investors, whether collateral represents a fixed set of specific assets or accounts, whether the underlying collateral assets are revolving or closed-end, under what terms (including maturity of the asset-backed instrument) any remaining balance in the accounts may revert to the issuing company and the extent to which the company that is the actual source of the collateral assets is obligated to provide support to the trust or conduit or to the investors. Further issues may arise based on discretionary behavior of the issuer within the terms of the securitization agreement, such as voluntary buybacks from, or contributions to, the underlying pool of loans when credit losses rise. A bank or other issuer 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. The most common types are securities collateralized by revolving credit-card receivables, but instruments backed by home equity loans, other second mortgages and automobile-finance receivables are also common.

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 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 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 United States generally

accepted accounting principles, 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 has been 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.

Specified Types

For the purpose of determining compliance with the Investment Criteria set forth above, the Asset-Backed Securities to be pledged to the Trustee on Closing Date are divided into the following different “Specified Types”: ABS Franchise Securities; Automobile Securities; Bank Guaranteed Securities; Bespoke CDO Securities; Black Box CDO Securities; Car Rental Receivable Securities; CBO Securities; CDO Securities; CDO Squared Securities; CLO Securities; CMBS Conduit Securities; CMBS Credit Tenant Lease Securities; CMBS Large Loan Securities; CMBS Single Property Securities; CRE CDO Securities; Credit Card Securities; Emerging Market CDO Securities; Emerging Market Security; Equipment Leasing Securities; FHLMC/FNMA Guaranteed Securities; Hedge Fund CDO Securities; Home Equity Loan Security; Insurance Company Guaranteed Securities; Manufactured Housing Securities; Market Value CDO Securities; Oil and Gas Securities; Private Equity CDO Securities; Project Finance Securities; Re-REMIC; Reinsurance Securities; REIT Debt Securities; RMBS Mid-Prime Mortgage Securities; RMBS Prime Mortgage Securities; RMBS Second Lien Security; RMBS Subprime Mortgage Securities; Small Business Loan Securities; Student Loan Securities; Tax Lien Securities; Time Share Securities; Trust Preferred CDO Securities; and U.S. Agency Guaranteed Securities.

The Specified Types of Asset-Backed Securities set forth above are divided into the following categories (the designation of each Collateral Debt Security to be determined by the Collateral Manager in its discretion at the time of purchase or commitment to purchase): ABS Type Diversified Securities; ABS Type Residential Securities; ABS Type Undiversified Securities; CMBS Securities; and RMBS Securities.

After the Closing Date, any other type of Asset-Backed Security may be designated as a “Specified Type” (and designated as an “ABS Type Diversified Security”, an “ABS Type Residential Security” or an “ABS Type Undiversified Security”) in a notice from the Collateral Manager to the Trustee so long as (i) the Controlling Class has provided the Trustee with its prior written consent and (ii) Standard & Poor’s has confirmed in writing to the Issuer, the Trustee and the Collateral Manager that such designation satisfies the Rating Condition. If any type of Asset-Backed Security will be so designated as an additional Specified Type, the definition of each Specified Type of Asset-Backed Security in existence prior to such designation will be construed to exclude such newly-designated Specified Type of Asset-Backed Security; *provided* that any U.S. Agency Securities retained by the Issuer after the Ramp-Up Completion Date that are not included in another Specified Type will be treated as a separate Specified Type.

REIT Debt Securities

A portion of the Collateral Debt Securities will consist of REIT Debt Securities or Synthetic Securities the Reference Obligations of which are REIT Debt Securities. A REIT Debt Security is a debt security issued by a real estate investment trust (as defined in Section 856 of the Code or any successor provision) (a “REIT”).

REITs are entities formed for the purpose of acquiring different types of real estate properties with the capital of many investors. A REIT is structured as either a corporation or a business trust and is not subject to corporate income taxes if the REIT satisfies the applicable requirements of the Code. The major tests for the tax-qualified status are that the REIT must (i) be managed by one or more trustees or directors, (ii) issue shares of transferable interest to its owners, (iii) have at least 100 beneficial owners, (iv) during the last half of each taxable year have no more than 50% of the shares, by value, held (actually or by attribution) by five or fewer individuals, (v) invest substantially all of its capital in real estate assets and derive substantially all of its gross income from real estate assets and (vi) distribute at least 90% of its taxable income, without regard to any net capital gains, to its shareholders each year.

REITs may be self-managed or managed by separate advisory companies for a fee, which is ordinarily based on a percentage of the assets of the REIT in addition to reimbursement of operating expenses.

There are two principal types of REITs: equity REITs and mortgage REITs. Equity REITs typically hold primarily real estate and benefit from the underlying net rental income generated from the properties. Mortgage REITs typically hold primarily mortgages secured by real estate assets and benefit predominantly from the difference between the interest income on the mortgage loans and the interest expense on the capital used to finance the loans. A third type, hybrid REITs, combines the investment strategies of equity REITs and mortgage REITs. In addition to being classified according to investment type, REITs may be categorized further in terms of their

specialization by property type (*e.g.* retail, multifamily, industrial or office) or geographic focus (*e.g.* nationwide, regional or metropolitan area).

See “Risk Factors—Nature of Collateral—REIT Debt Securities” for a discussion of the risks associated with investing in REIT Debt Securities.

For the purpose of determining compliance with the Investment Criteria set forth below, the REIT Debt Securities to be pledged to the Trustee on Closing Date are divided into ten different “Specified Types” as follows: REIT Debt Securities—Diversified; REIT Debt Securities—Health Care; REIT Debt Securities—Hotel; REIT Debt Securities—Industrial; REIT Debt Securities—Mortgage; REIT Debt Securities—Multi-Family; REIT Debt Securities—Office; REIT Debt Securities—Residential; REIT Debt Securities—Retail; REIT Debt Securities—Storage.

After the Closing Date, any other type of REIT Debt Security may be designated as a “Specified Type” in a notice from the Collateral Manager to the Trustee so long as (i) the Controlling Class has provided the Trustee with its prior written consent and (ii) Standard & Poor’s has confirmed in writing to the Issuer, the Trustee and the Collateral Manager that such designation satisfies the Rating Condition. If any type of REIT Debt Security will be so designated as an additional Specified Type, the definition of each Specified Type of REIT Debt Security in existence prior to such designation will be construed to exclude such newly-designated Specified Type of REIT Debt Security.

Synthetic Securities

A significant portion of the Collateral Debt Securities may consist of Synthetic Securities entered into between the Issuer and a Synthetic Security Counterparty, and it is anticipated that a large portion of the Synthetic Securities entered into by the Issuer will consist of CDS Agreement Transactions entered into with the Credit Default Swap Counterparty. “Synthetic Security Counterparty” means any entity (including, without limitation, the Credit Default Swap Counterparty) that is required to make payments on a Synthetic Security (whether premium payments, as a result of a Credit Event thereunder or based upon payments received from one or more reference obligors (“Reference Obligors”) on one or more related Reference Obligations); *provided* that with respect to any Synthetic Security that is issued by a trust, special purpose entity or 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, total return swap or similar agreement. “Permitted Reference Obligation” means any Asset-Backed Security that is a Specified Type of Asset-Backed Security, a REIT Debt Security, a CDO Security or a name referenced in an ABX Index and which satisfies paragraphs (1) through (3) and (5) through (16) of the Eligibility Criteria and (a) through (x) of the Concentration Limitations described in “—Investment Criteria”. “Reference Obligation” means a Permitted Reference Obligation in respect of which the Issuer has entered into or otherwise acquired a Synthetic Security.

With regard to a Synthetic Security, the requirements set forth in the Investment Criteria will apply to the applicable underlying Reference Obligation rather than the Synthetic Security itself (except that the Principal Balance of such Synthetic Security will be the Notional Amount thereof, paragraph (7) of the Eligibility Criteria will apply to the underlying Reference Obligation and the Synthetic Security, and paragraphs (e) and (k) of the Concentration Limitations which will apply to the Synthetic Security). Similarly, the frequency of payments of a Synthetic Security will be determined by reference to the applicable underlying Reference Obligation.

With respect to any Synthetic Security which is an ABX Index Synthetic Security, the Collateral Manager may, in its sole discretion, cause the Issuer to purchase credit protection from CALYON (the “ABX Index Hedge Counterparty”) at substantially the same time as the Issuer enters into such ABX Index Synthetic Security pursuant to a separate agreement (an “ABX Index Hedge Agreement”) under which the Issuer will, as the buyer of credit protection, reduce or eliminate its credit exposure to any obligor or obligors referenced on such ABX Index (such agreement will not be considered a Short Synthetic Security). To the extent credit protection is purchased on an obligor referenced on such ABX Index, the Collateral Quality Tests will not take into account the characteristics and notional balance related to such obligor.

For purposes of determining the Principal Balance of a Synthetic Security at any time, the Principal Balance of such Synthetic Security will be equal to (i) in the case of a Synthetic Security that is a credit default swap, (A) at any

time prior to the delivery of a notice of physical settlement, the Notional Amount of such Synthetic Security or (B) at any time following the delivery of a notice of physical settlement but prior to the receipt by the Issuer of the related Deliverable Obligations, the Physical Settlement Amount determined in accordance with the Underlying Instruments relating thereto, *plus* the remaining Notional Amount of such Synthetic Security to the extent there is a partial settlement or (ii) in the case of any other Synthetic Security, the aggregate amount of the repayment obligations of the Synthetic Security Counterparty payable to the Issuer through the maturity of such Synthetic Security.

The Collateral Manager (on behalf of the Issuer) may apply Excess Notional Amount Liquidity, Principal Proceeds and Sale Proceeds during the Reinvestment Period to cause the Issuer to enter into additional Synthetic Securities.

The Issuer will not acquire or enter into any CDS Agreement Transaction unless, immediately after giving effect to such acquisition, the Excess Notional Amount Liquidity would not be less than zero. Payments to the Credit Default Swap Counterparty in respect of any CDS Agreement Transactions (other than any termination payments in connection with the termination of the Credit Default Swap Agreement, which will only be payable on a Distribution Date in accordance with the Priority of Payments) will be funded by the Issuer applying (A) *first*, only with respect to Interest Shortfall payments, amounts standing to the credit of the Interest Collection Account; *provided* that application of such funds from the Interest Collection Account shall not cause a default in the payment of interest or commitment fee, as applicable, due and payable on the Class A Notes or Class B Notes on the immediately following Distribution Date, (B) *second*, amounts standing to the credit of the Principal Collection Account, (C) *third*, if amounts available under clause (A) and (B) are not sufficient, amounts standing to the credit of the Reserve Account and (D) *fourth*, if amounts available under the clauses (A) through (C) are not sufficient, Credit Protection Payments requested from the Class A-1 Noteholder pursuant to the Class A-1 Note Purchase Agreement.

In connection with the acquisition of a Defeased Synthetic Security, the Issuer may grant to the counterparty of such Defeased Synthetic Security a first priority security interest in Synthetic Security Collateral (and the proceeds thereof) designated by the Issuer and deposited in a Synthetic Security Counterparty Account, which may be invested as provided in the terms of such Defeased Synthetic Security, and the proceeds of which may be applied to make periodic payments to the Synthetic Security Counterparty under such Defeased Synthetic Security. The grant of such security interest will be treated as the payment of a purchase price equal to the value of the Synthetic Security Collateral covered by such grant, and the Issuer's obligations to make periodic payments under such Defeased Synthetic Security (to the extent recourse for such obligations is limited to such Synthetic Security Counterparty Account) will be disregarded for purposes of determining compliance with the Investment Criteria. Withdrawals from such Synthetic Security Counterparty Account will be made in accordance with the terms of the related Defeased Synthetic Security. See “—The Accounts—Synthetic Security Counterparty Account”.

In connection with (or after) the acquisition of a Synthetic Security, the related Synthetic Security Counterparty may grant to the Issuer a first priority security interest in Synthetic Security Collateral (and the proceeds thereof) designated by the related Synthetic Security Counterparty and deposited in an Issuer Collateral Account, which may be invested in accordance with the terms of such Synthetic Security, and the proceeds of which may be applied to make periodic payments to the Issuer under such Synthetic Security. Withdrawals from such Issuer Collateral Account will be made in accordance with the terms of the related Synthetic Security.

Investments in Synthetic Securities present risks in addition to those associated with other types of Collateral Debt Securities. See “Risk Factors—Nature of Collateral” and “—Synthetic Securities”.

The Collateral Quality Tests

The “Collateral Quality Tests” will be used primarily as criteria for purchasing Collateral Debt Securities. See “—Investment Criteria”. The Collateral Quality Tests will consist of the Moody's Asset Correlation Test, the Moody's Maximum Rating Distribution Test, the Fitch Weighted Average Rating Factor Test, the Moody's Minimum Weighted Average Recovery Rate Test, the Weighted Average Life Test, the Standard & Poor's CDO Monitor Test, the Standard & Poor's Minimum Weighted Average Recovery Rate Test and the Weighted Average Premium/Spread Test described below.

Measurement of the degree of compliance with the Collateral Quality Tests will be required on each Measurement Date on and after the Ramp-Up Completion Date. For purposes of the Collateral Quality Tests other than the Moody's Asset Correlation Test, the Standard & Poor's CDO Monitor Notification Test and the Weighted Average Life Test or for determining the Moody's Rating, the Standard & Poor's Rating and the Fitch Rating of a Synthetic Security (other than a Synthetic Security the Reference Obligation in respect of which is an ABX Index), a Synthetic Security will be included as a Collateral Debt Security having the characteristics and Average Life of the Synthetic Security and not of the related Reference Obligation. For purposes of the Collateral Quality Tests other than the Weighted Average Premium/Spread Test, an ABX Index Synthetic Security will be included as a Collateral Debt Security having the characteristics and Average Life of the underlying Reference Obligations that constitute such ABX Index (and the issuers thereof will be deemed to be the related Reference Obligors) and not of the ABX Index Synthetic Security; *provided* that the characteristics and Average Life of any such underlying Reference Obligation for which the Issuer has entered into an ABX Index Hedge Agreement will not be taken into account for purposes of the Collateral Quality Tests.

Moody's Asset Correlation Test. The "Moody's Asset Correlation Test" will be satisfied on any Measurement Date on or after the Ramp-Up Completion Date if the Moody's Asset Correlation Percentage (calculated based on a model that assumes 127 separate assets or such other number of assets as the Collateral Manager on behalf of the Issuer may agree in writing with Moody's or that otherwise satisfies the Rating Condition with respect to Moody's) is less than or equal to 23% on such Measurement Date (as the same shall be adjusted with the written consent of Moody's or in a manner that otherwise satisfies the Rating Condition with respect to Moody's in order to take into account any adjustment to the number of obligors in accordance with the foregoing). The "Moody's Asset Correlation Percentage" 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 Trustee by Moody's.

Moody's Maximum Rating Distribution Test. The "Moody's Maximum Rating Distribution Test" will be satisfied on any Measurement Date on or after the Ramp-Up Completion Date if the Moody's Rating Distribution of the Collateral Debt Securities is equal to a numerical value of not more than 520 on such Measurement Date. The "Moody's Rating Distribution" on any Measurement Date is the number determined by dividing (i) the sum of the series of products obtained for any Collateral Debt Security that is not a Defaulted Security, by multiplying (a) the Principal Balance on such Measurement Date of each such Collateral Debt Security by (b) its respective Moody's Rating Factor on such Measurement Date by (ii) the Aggregate Principal Balance on such Measurement Date of all Collateral Debt Securities that are not Defaulted 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:

<u>Moody's Rating</u>	<u>Moody's Rating Factor</u>	<u>Moody's Rating</u>	<u>Moody's Rating Factor</u>
Aaa	1	Ba1	940
Aa1	10	Ba2	1,350
Aa2	20	Ba3	1,766
Aa3	40	B1	2,220
A1	70	B2	2,720
A2	120	B3	3,490
A3	180	Caa1	4,770
Baa1	260	Caa2	6,500
Baa2	360	Caa3	8,070
Baa3	610	Ca or lower	10,000

For purposes of the Moody's Maximum Rating Distribution Test, if a Collateral Debt Security does not have a Moody's Rating at the date of acquisition thereof, the Moody's Rating Factor with respect to such Collateral Debt Security will be 10,000 for a period of 90 days from the acquisition of such Collateral Debt Security and 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.

Moody's Minimum Weighted Average Recovery Rate Test. The “Moody's Minimum Weighted Average Recovery Rate Test” will be satisfied as of any Measurement Date on or after the Ramp-Up Completion Date, if the Moody's Weighted Average Recovery Rate is greater than or equal to 25%.

The “Moody's Weighted Average Recovery Rate” is the number, expressed as a percentage, obtained by summing the products obtained by multiplying the Principal Balance of each Collateral Debt Security, other than a Defaulted Security, by its “Applicable Recovery Rate” (determined for purposes of this definition pursuant to clause (a) of the definition of “Applicable Recovery Rate”), dividing such sum by the Aggregate Principal Balance of all such Collateral Debt Securities and rounding up the result to the first decimal place.

Fitch Weighted Average Rating Factor Test. The “Fitch Weighted Average Rating Factor Test” will be satisfied on any Measurement Date on or after the Ramp-Up Completion Date if the Fitch Weighted Average Rating Factor of the Collateral Debt Securities does not exceed 6.00. The “Fitch Weighted Average Rating Factor” means, as of any Measurement Date, the number obtained by dividing (i) the summation of the series of products obtained for any pledged Collateral Debt Security that is not a Defaulted Security, by multiplying (1) the principal balance on such Measurement Date of each such pledged Collateral Debt Security by (2) its respective Fitch Rating Factor on such Measurement Date by (ii) the aggregate principal balance on such Measurement Date of all Collateral Debt Securities that are not Defaulted Securities and rounding the result up to the nearest hundredth decimal.

The “Fitch Rating Factor” relating to any Collateral Debt Security is the number set forth in the table below opposite the Fitch Rating of such Collateral Debt Security.

<u>Fitch Rating</u>	<u>Fitch Rating Factor</u>	<u>Fitch Rating</u>	<u>Fitch Rating Factor</u>
AAA	0.19	BB	13.53
AA+	0.57	BB-	18.46
AA	0.89	B+	22.84
AA-	1.15	B	27.67
A+	1.65	B-	34.98
A	1.85	CCC+	43.36
A-	2.44	CCC	48.52
BBB+	3.13	CC	77.00
BBB	3.74	C	95.00
BBB-	7.26	DDD-D	100.00
BB+	10.18		

Weighted Average Premium/Spread Test. The “Weighted Average Premium/Spread Test” means a test that is satisfied on any Measurement Date on or after the Ramp-Up Completion Date if the Weighted Average Premium/Spread as of such Measurement Date is equal to or greater than 1.94%.

Weighted Average Life Test. The “Weighted Average Life Test” will be satisfied as of any Measurement Date if the Weighted Average Life of all Collateral Debt Securities (other than Defaulted Securities) as of such Measurement Date is less than or equal to (i) 6.0 years on or after the Ramp-Up Completion Date to and including the Distribution Date in March 2010, (ii) 4.0 years thereafter to and including the Distribution Date in March 2012 and (iii) 3.0 years thereafter.

On any Measurement Date with respect to any Collateral Debt Security other than a Defaulted Security, 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 Collateral Debt Security by (b) the outstanding Principal Balance of such Collateral Debt Security and dividing such sum by the Aggregate Principal Balance at such time of all Collateral Debt Securities other than Defaulted Securities. On any Measurement Date with respect to any 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 distribution of principal of such 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 Collateral Debt Security.

Standard & Poor's Minimum Weighted Average Recovery Rate Test. The “Standard & Poor's Minimum Weighted Average Recovery Rate Test” will be satisfied on any Measurement Date on or after the Ramp-Up Completion Date, if the Standard & Poor's Weighted Average Recovery Rate is equal to or greater than (a) with respect to the Class A-1 Notes, 30%, (b) with respect to the Class A-2 Notes, 30%, (c) with respect to the Class B Notes, 35%, (d) with respect to the Class C Notes, 40%, (e) with respect to the Class D Notes, 45%, (f) with respect to the Class E Notes, 45% and (g) with respect to the Class F Notes, 45%.

Standard & Poor's CDO Monitor Notification Test

The “Standard & Poor's CDO Monitor Notification Test” is a test satisfied on any Measurement Date on or after the Ramp-Up Completion Date if, after giving effect to the sale of a Collateral Debt Security or the purchase of a Collateral Debt Security (or both), as the case may be, on such Measurement Date, the Notes Default Rate Differential of the Proposed Portfolio is positive or if the Notes Default Rate Differential of the Proposed Portfolio is negative prior to giving effect to such sale or purchase, the extent of compliance is improved after giving effect to the sale or purchase of a Collateral Debt Security; *provided* that the Standard & Poor's CDO Monitor Notification Test will not apply to the sale of a Credit Risk Security; *provided further*, that for purposes of determining the Standard & Poor's CDO Monitor Notification Test, unless otherwise specified, a Synthetic Security (other than a Synthetic Security the Reference Obligation in respect of which is an ABX Index) will be included as a Collateral Debt Security having the characteristics of the related Reference Obligation and not of the Synthetic Security.

The “Standard & Poor's CDO Monitor” is the dynamic, analytical computer model provided by Standard & Poor's to the Collateral Manager and the Trustee (together with all assumptions and instructions necessary to run such model) on or after the date of receipt by the Issuer of Standard & Poor's Ratings Confirmation with respect to the initial ratings for the purpose of estimating the default risk of Collateral Debt Securities, as such model may be modified by Standard & Poor's from time to time.

The Standard & Poor's CDO Monitor calculates the cumulative default rate of a pool of Collateral Debt Securities consistent with a specified benchmark rating level based upon Standard & Poor's proprietary corporate debt default studies. In calculating the Class Scenario Default Rate, the Standard & Poor's CDO Monitor considers each obligor's most senior unsecured debt rating, the number of obligors in the portfolio, the obligor and industry concentration in the portfolio and the remaining weighted average maturity of the Collateral Debt Securities and calculates a cumulative default rate based on the statistical probability of distributions of defaults on the Collateral Debt Securities.

There can be no assurance that actual defaults of the Collateral Debt Securities or the timing of defaults will not exceed those assumed in the application of the Standard & Poor's CDO Monitor or that recovery rates with respect thereto will not differ from those assumed in the Standard & Poor's CDO Monitor Notification Test. Standard & Poor's makes no representation that actual defaults will not exceed those determined by the Standard & Poor's CDO Monitor. Neither the Collateral Manager nor the Issuer makes any 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 or principal prepayment features of such Collateral Debt Securities or Reference Obligations, as the case may be, or in the case of Synthetic Securities, due to early terminations or settlements, in accordance with their respective terms. In addition, pursuant to the Indenture and so long as no Event of Default has occurred and is continuing, the Collateral Manager may direct the Issuer to sell, terminate or otherwise liquidate (or, in the case of Synthetic Securities, to terminate):

- (1) any Defaulted Security at any time;
- (2) any equity security acquired by the Issuer in exchange for a Defaulted Security or Equity Security (any of the foregoing, an “Equity Security”) at any time;

(3) any Credit Risk Security at any time (whether or not the applicable Sale Proceeds are reinvested), provided that Sale Proceeds from such sale may only be reinvested if the Collateral Manager believes in good faith and in the exercise of its judgment that proceeds from the sale thereof can be reinvested in (or in the case of a CDS Agreement Transaction, allocated to) one or more substitute Collateral Debt Securities having an Aggregate Principal Balance of not less than 100% of such Sale Proceeds (excluding accrued interest purchased with Interest Proceeds) (or, in the case of a CDS Agreement Transaction, having an aggregate Notional Amount not less than 100% of the Notional Amount of the CDS Agreement Transaction being terminated without causing the Excess Notional Amount Liquidity to be reduced below zero);

(4) any Credit Improved Security (i) at any time during the Reinvestment Period, but only if the Collateral Manager believes in good faith and in the exercise of its judgment that proceeds from the sale of such Credit Improved Security can be reinvested in accordance with the Investment Criteria within 20 Business Days after the trade date on which such Credit Improved Security is sold, terminated or otherwise liquidated in one or more substitute Collateral Debt Securities having an Aggregate Principal Balance of not less than 100% of the Principal Balance of the Collateral Debt Security being sold, terminated or otherwise liquidated and (ii) after the Reinvestment Period if the proceeds (excluding accrued interest) from such sale (A)(1) are not less than 100% of the Principal Balance of the Credit Improved Security being sold and (2) are deposited in the Principal Collection Account and disbursed in accordance with the Priority of Payments; and

(5) without limiting the foregoing, any Collateral Debt Security that is not a Defaulted Security, an Equity Security, a Credit Risk Security or a Credit Improved Security may be sold at any time during the Reinvestment Period; *provided* that (A) the Collateral Manager believes in good faith that Sale Proceeds from the sale of such Collateral Debt Security can be reinvested (or in the case of a CDS Agreement Transaction, allocated to) within 30 days after such Collateral Debt Security is sold, in one or more substitute Collateral Debt Securities having an Aggregate Principal Balance at least equal to 100% of the Principal Balance of the Collateral Debt Security being sold, terminated or otherwise liquidated (without, in the case of a CDS Agreement Transaction, causing the Excess Notional Amount Liquidity to be reduced below zero), (B) no Rating Agency has withdrawn its rating (including any private or confidential rating; *provided* that such private or confidential rating was obtained by, or upon the request of, the Issuer or the Collateral Manager on behalf of the Issuer), if any, of any Class of Notes or reduced the rating assigned to any Class A Notes or Class B Notes below the rating in effect on the Closing Date by one or more rating subcategories or reduced the ratings assigned to any Class C Notes or Class D Notes by two or more rating subcategories and (C) the Aggregate Principal Balance of all such Sales effected for any calendar year (beginning on the Ramp-Up Completion Date) does not exceed 15% of the Net Outstanding Portfolio Collateral Balance as of the first day of such period (such percentage, the “Discretionary Trading Percentage”); *provided* that, notwithstanding the above, (i) any disposition of a Collateral Debt Security will not count towards the Discretionary Trading Percentage if the Issuer obtains a position with respect to such Collateral Debt Security by selling protection on such Collateral Debt Security pursuant to a CDS Agreement Transaction where the Notional Amount applicable to the new related Reference Obligation is equal to the Principal Balance of such Collateral Debt Security as of the time immediately prior to the sale of such Collateral Debt Security, (ii) the Issuer may purchase a Collateral Debt Security without regard to the Discretionary Trading Percentage if such Collateral Debt Security represents the cash position of a Reference Obligation with respect to which the Issuer was the seller of protection pursuant to a CDS Agreement Transaction and the Issuer traded out of such synthetic position within 30 days prior to the purchase of such Collateral Debt Security and (iii) the Issuer may sell at any time during or after the Reinvestment Period and may purchase at any time during the Reinvestment Period, a Collateral Debt Security without regard to the Discretionary Trading Percentage if such Collateral Debt Security has an Average Life of less than six months; *provided* that with respect to the sale of any Collateral Debt Security that has an Average Life of less than six months, all such Sales during any 12-month period does not exceed 15% of the Net Outstanding Portfolio Collateral Balance; and *provided further* that, notwithstanding the Discretionary Trading Percentage, the Issuer may effect the Sale of any Collateral Debt Security that has an average life of less than one year, so long as all such Sales effected during any 12-month period does not exceed 15% of the Net Outstanding Portfolio Collateral Balance.

provided that, if the Collateral Manager has received written notice of termination or has provided written notice of resignation pursuant to the Collateral Management Agreement, the Collateral Manager will only be permitted to direct the Issuer to dispose of Credit Risk Securities, Defaulted Securities and Equity Securities.

Any Defaulted Security must be sold, terminated or otherwise liquidated within one year after the related Collateral Debt Security became a Defaulted Security (or within one year of such later date as such security may first be sold, terminated or otherwise liquidated in accordance with its terms), *provided* that (i) the Issuer will not be required to sell, terminate or otherwise liquidate such Defaulted Security if the Rating Condition with respect to Moody's is satisfied with respect to the retention of such Defaulted Security, (ii) the Issuer will not be obligated to sell, terminate or otherwise liquidate any Collateral Debt Security that is a Defaulted Security solely because it is rated "CC", "D" or "SD" by Standard & Poor's, (iii) the Issuer will not be obligated to sell, terminate or otherwise liquidate any Collateral Debt Security that is a Defaulted Security for up to three years after such Collateral Debt Security became a Defaulted Security, so long as the Aggregate Principal Balance of all Collateral Debt Securities that are Defaulted Securities does not exceed 5% of the Net Outstanding Portfolio Collateral Balance and (iv) any Defaulted Security that is held for more than three years will be treated as having a Principal Balance of zero.

Any Equity Security that is not "margin stock" as defined under Regulation U issued by the Board of Governors of the Federal Reserve System and complies with Eligibility Criteria (6) through (8) or any security or other consideration that is received in an exchange that complies with Eligibility Criteria (6) through (8) must be sold, terminated or otherwise liquidated within one year after the Issuer's receipt thereof (or within one year of such later date as such security may first be sold, terminated or otherwise liquidated in accordance with its terms). Any other Equity Security or security or other consideration that is received in an exchange and any Defaulted Security that does not comply with Eligibility Criteria (6) through (8) must be sold, terminated or otherwise liquidated within five Business Days after the Issuer's receipt thereof (or within five Business Days of such later date as such security may first be sold, terminated or otherwise liquidated in accordance with its terms).

In the event of an Auction Call Redemption, Optional Redemption, Tax Redemption or a Clean-Up Call Redemption of the Notes, the Collateral Manager may direct the Trustee to sell, terminate or otherwise liquidate Collateral Debt Securities without regard to the foregoing limitations; *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; and (ii) such proceeds are used to make such a redemption. See "Description of the Notes—Optional Redemption and Tax Redemption", "—Auction Call Redemption" and "—Clean-Up Call Redemption".

The Collateral Manager may direct the Trustee (acting on behalf of the Issuer) to acquire an obligation to be included in the Collateral directly or indirectly from the Collateral Manager or any of its Affiliates, acting as principal or agent, or any account or portfolio for which the Collateral Manager or any of its Affiliates serve as investment adviser or sell any obligation included in the Collateral directly or indirectly to the Collateral Manager or any of its Affiliates, acting as principal or agent, or any account or portfolio for which the Collateral Manager or any of its Affiliates serve as investment adviser, in each case only to the extent that (a) such purchases or sales are made for fair market value (as determined in good faith by the Collateral Manager at the time such obligation is acquired or sold) and otherwise on arms' length terms and (b) the Collateral Manager determines that such purchases are consistent with the investment guidelines and objectives of the Issuer, the restrictions contained in the Indenture and applicable law. The Trustee will have no responsibility to oversee compliance with the above conditions by the other parties.

The Issuer may commit to purchase and/or sell multiple Collateral Debt Securities pursuant to a Trading Plan, in which case compliance with the Investment Criteria may, at the option of the Collateral Manager, be measured by determining the aggregate effect of such Trading Plan on the Issuer's level of compliance with the Investment Criteria rather than considering the effect of each purchase and sale of such Collateral Debt Securities individually. The Indenture will allow the Issuer (or the Collateral Manager on its behalf) to enter into a Trading Plan only if (1) as evidenced by an Officer's certificate of the Collateral Manager delivered to the Trustee on or prior to the earliest event specified in the related Trading Plan, the Investment Criteria are expected to be satisfied as of the scheduled completion date of the related Trading Plan, (2) Moody's has not withdrawn or reduced (and not restored) the rating of any Class of Notes by more than one rating subcategory (in the case of the Class A Notes or Class B Notes) or two rating subcategories (in the case of the Class C Notes, Class D Notes, Class E Notes or Class F Notes) below their respective ratings as of the Closing Date and (3) the level of compliance with each of the Investment Criteria that was not satisfied at the time of completion of any prior Trading Plan (if any) is equal to or better than

the level of compliance with such Investment Criteria prior to the initiation of such previous Trading Plan. Upon completion of a Trading Plan, the Collateral Manager will deliver to the Trustee an Officer's certificate of the Collateral Manager specifying whether each of the Investment Criteria was satisfied.

If at any time any two Trading Plans that were previously implemented result in the deterioration in the Issuer's level of compliance with any of the Investment Criteria, other than due to (x) a failure of a counterparty or issuer to comply with any of its payment or delivery obligations to the Issuer or any other default by such counterparty or issuer for reasons beyond the control of the Issuer or any other terms that were agreed with the Issuer at or prior to the commencement of such Trading Plan or (y) an error or omission of an administrative or operational nature made by any bank, broker-dealer, clearing corporation or other similar financial intermediary holding funds, securities or other property directly or indirectly for the account of the Issuer, the Indenture will require that notice be provided to Standard & Poor's and the Issuer will be prohibited from entering into any additional Trading Plans notwithstanding that such Trading Plan was executed in good faith, until the Issuer's level of compliance is restored to its prior level. The time period for each such Trading Plan will be measured from the earliest trade date to the latest trade date of any such amounts. The Collateral Manager may only specify one Trading Plan per trade date. The Collateral Manager will provide notice to Standard & Poor's of any failed Trading Plan. Once compliance is restored to its prior level the Collateral Manager may request, and Standard & Poor's may restore the Issuer's ability to implement Trading Plans.

If on the Ramp-Up Completion Date any of the Collateral Quality Tests or the Investment Criteria are not satisfied, (i) the Collateral Manager, on behalf of the Issuer, may provide a Proposed Plan for satisfying such tests or limitations to each of Moody's, Standard & Poor's and Fitch (ii) the Issuer will be prohibited from purchasing additional Collateral Debt Securities (unless the first such purchase satisfies the Proposed Plan and the Proposed Plan satisfies the Rating Condition with respect to Moody's, Standard & Poor's and Fitch); provided that such prohibition will not apply to purchases of Collateral Debt Securities which the Issuer had committed to make prior to the effective date of such prohibition. In such event, the Collateral Manager will give written notice to the Trustee, the Hedge Counterparties and the Noteholders that the Issuer is prohibited from purchasing additional Collateral Debt Securities other than pursuant to the above.

During the Reinvestment Period, Principal Proceeds (including those resulting from dispositions, maturities or redemptions of Collateral Debt Securities as aforesaid) may be reinvested in Collateral Debt Securities (including Synthetic Securities other than CDS Agreement Transactions) if the reinvestment criteria set forth above under "—Investment Criteria" are satisfied or, if applicable, the extent of compliance is maintained or improved. See "—Investment Criteria". If, however, at the time of sale, maturity or redemption the Collateral Manager is not required to and has not identified Collateral Debt Securities for purchase, Principal Proceeds may be reinvested in Eligible Investments in the Principal Collection Account, pending reinvestment in Collateral Debt Securities.

In addition, upon the occurrence of a principal amortization or a CDS Agreement Transaction termination during the Reinvestment Period, the Collateral Manager (on behalf of the Issuer) may enter into one or more replacement CDS Agreement Transactions so long as the reinvestment criteria set forth above under "—Investment Criteria" are satisfied. The Issuer may only enter into any such replacement CDS Agreement Transaction if the Issuer and the Credit Default Swap Counterparty agree on the terms of such replacement CDS Agreement Transaction.

The Hedge Agreements

The Issuer may at any time on or after the Closing Date enter into one or more interest rate protection agreements (each such agreement, and any replacement therefor entered into in accordance with the Indenture, an "Interest Rate Hedge Agreement") with a counterparty with respect to which the Rating Condition has been satisfied (or waived by the applicable Rating Agency) (each, an "Interest Rate Hedge Counterparty"). Each such Interest Rate Hedge Agreement may consist of one or more interest rate swaps and/or interest rate caps.

On or after the Closing Date, the Issuer and Calyon New York Branch (the "Asset Hedge Counterparty") may enter into a hedge agreement (together with the related confirmation and schedule, the "Deemed Floating Asset Hedge Agreement") in the form of the 1992 ISDA Master Agreement (Multicurrency—Cross Border) published by the International Swaps and Derivatives Association, Inc. ("ISDA"). The Hedge Agreement will incorporate the 2000 ISDA Definitions published by ISDA except as modified to reflect the transaction provided for in the Deemed

Floating Asset Hedge Agreement. Under the Deemed Floating Asset Hedge Agreement, the Issuer may make an up-front payment to the Asset Hedge Counterparty and make monthly payments to the Asset Hedge Counterparty, which monthly payments will be based on a percentage of the notional amount related to a Fixed Rate Collateral Debt Security that pays periodic payments of interest in exchange for payment from the Asset Hedge Counterparty.

The Issuer is also authorized after the Closing Date to enter into additional or supplemental Deemed Floating Asset Hedge Agreements (the Deemed Floating Asset Hedge Agreements and each Interest Rate Hedge Agreement being collectively referred to herein as the “Hedge Agreements” and each, a “Hedge Agreement”) with such hedge counterparties (each, an “Asset Hedge Counterparty”; the Asset Hedge Counterparties and each Interest Rate Hedge Counterparty are collectively referred to herein as the “Hedge Counterparties”) as it may elect in its sole discretion upon or following the acquisition of a Collateral Debt Security which Hedge Agreements in each case either (i) satisfy the Rating Condition (or the applicable Rating Agency has waived its right to review) or (ii) are Form-Approved Asset Hedge Agreements with respect to which the details of the Collateral Debt Security that is the subject of such acquisition have been provided to each of the Rating Agencies.

Asset Hedge Account

The Trustee will, with respect to any Deemed Floating Asset Hedge Agreement, deposit all amounts that are received in respect of interest on the Collateral Debt Security that is the subject of such Deemed Floating Asset Hedge Agreement and are required to be paid to the related Asset Hedge Counterparty in accordance with the terms of such Deemed Floating Asset Hedge Agreement into a separate securities account in the name of the Trustee and each such account will be designated an “Asset Hedge Account”. Each Asset Hedge Account will be established on or prior to the entry into the relevant Asset Hedge Agreement and will be maintained for the benefit of the relevant Asset Hedge Counterparty. All amounts standing to the credit of an Asset Hedge Account (including, without limitation, investment earnings on Eligible Investments standing to the credit of an Asset Hedge Account) will be invested in Eligible Investments until such amounts are paid to the related Asset Hedge Counterparty in accordance with the terms of the related Asset Hedge Agreement. Any amounts (whether investment earnings on Eligible Investments or otherwise) remaining in an Asset Hedge Account on any Distribution Date that are not required to pay any amounts due to any Asset Hedge Counterparty under the related Asset Hedge Agreement will be transferred to the Interest Collection Account on such Distribution Date and applied as Interest Proceeds in accordance with the Priority of Payments on such Distribution Date.

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, will be payable pursuant to paragraphs (5) and (25) under “Priority of Payments—Interest Proceeds” and paragraphs (1) and (8) under “Priority of Payments—Principal Proceeds”. Each Hedge Agreement will be governed by New York law.

If the ratings of a Hedge Counterparty are withdrawn, suspended or fall to or below certain levels specified by the Rating Agencies and set forth (or incorporated by reference into) in the related Hedge Agreement, such Hedge Counterparty will be required either (x) to enter into an agreement with the Issuer providing for the posting of collateral or (y) to assign its rights and obligations to a replacement Hedge Counterparty that meets certain rating requirements (either based on the rating of such replacement Hedge Counterparty or the rating of an Affiliate of such replacement Hedge Counterparty that unconditionally and absolutely guarantees (pursuant to a form of guarantee that satisfies all applicable published rating criteria of the Rating Agencies) the obligations of such replacement Hedge Counterparty), unless the Issuer enters into a replacement Hedge Agreement with a replacement Hedge Counterparty that meets such rating requirements (in which case the Hedge Agreement between the Issuer and the Hedge Counterparty being replaced will be terminated) or the Issuer and the Hedge Counterparty whose ratings have been withdrawn, suspended or have fallen to or below certain levels take such other actions as may be set forth in the Indenture and the related Hedge Agreement.

The Trustee will deposit all collateral received from a Hedge Counterparty under a Hedge Agreement in a securities account (each, a “Hedge Counterparty Collateral Account”) in the name of the Trustee that will be designated a “Hedge Counterparty Collateral Account”, which account will be maintained for the benefit of the Noteholders, such Hedge Counterparty and the Trustee. Any funds in the Hedge Counterparty Collateral Account, if invested, will be invested in eligible investments set forth in the Hedge Agreement.

Each Hedge Agreement will be subject to termination upon, among other things, the earlier to occur of (a) an Event of Default followed by the liquidation of all or part of the Collateral in accordance with the Indenture and (b) any Auction Call Redemption, Clean-Up Call Redemption, Optional Redemption or Tax Redemption. On any Distribution Date on which there is a reduction of the Remaining Unfunded Class A-1 Commitment Amount and payment of principal of the Notes, the Collateral Manager on behalf of the Issuer, with the consent of the related Hedge Counterparty, may reduce the Notional Amount of any interest rate swap or cap outstanding under a Hedge Agreement by an amount corresponding to the sum of (a) the reduction to the Remaining Unfunded Class A-1 Commitment Amount on such Distribution Date and (b) the principal amount of the Notes redeemed on such Distribution Date; *provided* that the Issuer satisfies the Rating Condition (or the applicable Rating Agency has waived its right to review). In the event of any such reduction, an Interest Rate Hedge Counterparty or the Issuer may be required to make a termination payment in respect of such reduction to the other party. In addition, subject to satisfaction of the Rating Condition, the Collateral Manager, with the consent of the related Hedge Counterparty, may amend or modify the terms of any Hedge Agreement.

Amounts payable upon any early termination or reduction will be based substantially upon standard replacement transaction valuation methodology set forth in the 1992 ISDA Master Agreement published by the International Swaps and Derivatives Association, Inc. If any amount is payable by the Issuer to a Hedge Counterparty in connection with the occurrence of any such early termination or Notional Amount reduction, such amount, together with interest on such amount for the period from and including the date of termination to but excluding the date of payment, will be payable on such Distribution Date to the extent funds are available for such purpose in accordance with the Priority of Payments, and any amount not so paid on such Distribution Date will be payable on the first Distribution Date on which such amount is required to be paid in accordance with the Priority of Payments.

The Issuer will not enter into any Hedge Agreement the payments from which are subject to withholding tax (unless only the Hedge Counterparty is required to withhold and the Hedge Counterparty will be required in accordance with the terms of the Hedge Agreement to pay additional amounts to the Issuer sufficient to cover any withholding tax due on payments made by the Hedge Counterparty to the Issuer under such Hedge Agreement (subject to the Issuer making customary tax representations) and the Issuer will not be required to pay additional amounts to the Hedge Counterparty sufficient to cover any withholding tax due on payments made by the Issuer to the Hedge Counterparty).

The obligations of the Issuer under each Hedge Agreement are limited recourse obligations payable solely from the Collateral pursuant to the Priority of Payments, or, in the case of a Deemed Floating Asset Hedge Agreement, from interest payments received by the Issuer in respect of the Collateral Debt Securities to which such Deemed Floating Asset Hedge Agreement relates.

The Closing Date Swap Agreement

The Issuer will on or prior to the Closing Date enter into a swap agreement (the “Closing Date Swap Agreement”) with Calyon New York Branch (in such capacity, the “Closing Date Swap Counterparty”), pursuant to which (a) the Closing Date Swap Counterparty will pay the Issuer (i) a payment of U.S.\$35,000,000 on the Closing Date and (ii) on each Monthly Distribution Date during the term of the Closing Date Swap Agreement, an amount equivalent to one-month LIBOR, as in effect on such Monthly Distribution Date and (b) the Issuer will pay to the Closing Date Swap Counterparty on each Monthly Distribution Date during the term of the Closing Date Swap Agreement, an amount equal to one-month LIBOR as in effect for such Monthly Distribution Date, *plus* a spread to be determined prior to the Closing Date. The proceeds of the payment made by the Closing Date Swap Counterparty to the Issuer on the Closing Date will be applied by the Issuer to the payment of certain fees and expenses expected to be incurred by the Issuer in connection with the issuance of the Offered Securities on the Closing Date and to allow for a reduction in the proceeds received on the Closing Date from issuance of the Preference Shares (see “The Co-Issuers—Capitalization).

The Accounts

Collection Accounts

All distributions on the Collateral Debt Securities and any proceeds received from the disposition of any such Collateral Debt Securities, to the extent such distributions or proceeds constitute Interest Proceeds, and any amounts payable to the Issuer by the Hedge Counterparty under any Hedge Agreement will be remitted to a single, segregated account established and maintained under the Indenture by the Trustee (the “Interest Collection 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 (unless simultaneously reinvested in Collateral Debt Securities or Eligible Investments) and all proceeds from the funding of Class A-1 Notes pursuant to the Class A-1 Note Purchase Agreement will be remitted to a single, segregated account established and maintained under the Indenture by the Trustee (the “Principal Collection Account” and, together with the Interest Collection Account, the “Collection Accounts”). The Collection Accounts may be a sub-account of the Custodial Account and will be maintained for the benefit of the Secured Parties and amounts on deposit therein will be available, together with reinvestment earnings thereon, for application in the order of priority set forth above under “Description of the Notes—Priority of Payments” and for the acquisition of Collateral Debt Securities under the circumstances and pursuant to the requirements described herein and in the Indenture. Notwithstanding the foregoing, the Trustee will deposit a portion (as specified in the Interest Reserve Schedule) of all payments of interest received in respect of a Collateral Debt Security that pays interest less frequently than quarterly into the Interest Reserve Account.

All amounts received in the Collection Accounts will be invested in Eligible Investments (as described below) with stated maturities no later than the Business Day immediately preceding the next Distribution Date. All such proceeds will be retained in the Collection Accounts unless used to purchase Collateral Debt Securities in accordance with the Investment Criteria, to honor commitments with respect thereto entered into during the Reinvestment Period, or used as otherwise permitted under the Indenture. See “—Investment Criteria”.

Payment Account

On or prior to the Business Day prior to each Distribution Date, the Trustee will deposit into a single, segregated account established and maintained by the Trustee under the Indenture (the “Payment Account”) for the benefit of the Secured Parties all funds in the Collection Accounts (other than amounts received after the end of the related Due Period or that the Issuer is entitled to reinvest in accordance with the Investment Criteria, which may be retained in the Collection Accounts for subsequent reinvestment, if the Issuer so elects as set forth in the Indenture) required for payments to Noteholders and payments of fees and expenses for application in accordance with the Priority of Payments described under “Description of the Notes—Priority of Payments”.

Custodial Account

The Trustee will, prior to the Closing Date, cause the Custodian to establish a securities account (the “Custodial Account”) in the name of the Trustee into which the Trustee will from time to time deposit Collateral. All Collateral from time to time deposited in, or otherwise standing to the credit of, the Custodial Account will be held by the Trustee as part of the Collateral and will be applied in accordance with the terms of the Indenture.

Expense Account

On the Closing Date, after payment of the organizational and structuring fees and expenses of the Co-Issuers (including, without limitation, the legal fees and expenses of counsel to the Co-Issuers, the Initial Purchasers, the Trustee and the Collateral Manager and the fees and expenses payable in connection with the ratings of the Notes), the expenses related to the offering of the Offered Securities (including fees payable to the Initial Purchasers in connection with the underwriting and placement of the Offered Securities), U.S.\$75,000 from the net proceeds of the offering of the Offered Securities will be credited by the Trustee to a single, segregated account established and maintained by the Trustee under the Indenture (the “Expense Account”). In addition, on each Distribution Date on which the balance of the Expense Account is less than U.S.\$75,000, additional amounts will be deposited therein to the extent that funds are available therefor in accordance with the priority described under “Description of the

Notes—Priority of Payments”. Amounts on deposit in the Expense Account may be withdrawn from time to time to pay accrued and unpaid expenses (other than the fees and expenses of the Trustee) of the Co-Issuers. All funds on deposit in the Expense Account will be invested in Eligible Investments in accordance with the written instructions of the Collateral Manager on behalf of the Issuer.

Interest Equalization Account

On or prior to the Closing Date, the Custodian will establish a single, segregated securities account in the name of the Trustee (the “Interest Equalization Account”), to which the Trustee during any Due Period will credit such amount of distributions received on any Floating Rate Collateral Debt Security then bearing interest at a floating rate during such Due Period that the Collateral Manager reasonably determines (as notified to the Trustee no later than the Determination Date) necessary to equalize monthly interest cash flows and to the extent such distributions or proceeds constitute scheduled distributions of interest; *provided* that in no event will any amount be deposited in the Interest Equalization Account if such deposit would result in there being insufficient Interest Proceeds to pay all amounts set forth in paragraphs (1) through (19) under “Description of the Notes—Priority of Payments—Interest Proceeds” on any Distribution Date. Amounts deposited in the Interest Equalization Account in respect of any Due Period, together with investment earnings thereon, will be paid into the Interest Collection Account on the last day of the next succeeding Due Period (to be applied as “Interest Proceeds” on the related Distribution Date in accordance with the Priority of Payments). In addition, in connection with any redemption of the Notes, the full amount on deposit in the Interest Equalization Account will be paid into the Interest Collection Account and available to pay the Redemption Price of the Notes as if such amount had originally been on deposit in the Interest Collection Account. All funds on deposit in the Interest Equalization Account will be invested in Eligible Investments with stated maturities no later than the last day of the next succeeding Due Period in accordance with the written instructions of the Collateral Manager on behalf of the Issuer.

Interest Reserve Account

On the Closing Date, the Custodian will establish a single, segregated account in the name of the Trustee (the “Interest Reserve Account”) for the purpose of holding a portion of the funds received in respect of each payment of interest in respect of a Collateral Debt Security which pays interest less frequently than monthly. On each date on which the Trustee receives a payment of interest in respect of any Collateral Debt Security that pays interest less frequently than monthly and is not the subject of a Deemed Floating Asset Hedge Agreement under which the Issuer receives payments from the related Asset Hedge Counterparty monthly, the Trustee will deposit a portion of the amount received into the Interest Collection Account and will deposit the remaining portion into the Interest Reserve Account when instructed by the Collateral Manager pursuant to a schedule (the “Interest Reserve Schedule”) prepared by the Collateral Manager and delivered to the Trustee and each of the Rating Agencies no less than one Business Day prior to the date of acquisition thereof by the Issuer setting forth with respect to each such Collateral Debt Security that pays interest less frequently than monthly and is not the subject of a Deemed Floating Asset Hedge Agreement (x) the portion of each scheduled payment of interest in respect of such Collateral Debt Security which pays interest less frequently than monthly that is to be deposited in the Interest Collection Account when received in cash by the Issuer, (y) the portion of such payment that is to be deposited in the Interest Reserve Account on such date and (z) the amount that is to be transferred from the Interest Reserve Account to the Interest Collection Account on the Business Day prior to each Distribution Date in respect of such Collateral Debt Security. The Interest Reserve Schedule may be amended from time to time by the Collateral Manager with notice to Moody’s and Standard & Poor’s. All funds on deposit in the Interest Reserve Account will be invested in Eligible Investments in accordance with the written instructions of the Collateral Manager on behalf of the Issuer.

Synthetic Security Counterparty Accounts

The Trustee will cause to be established a single, segregated securities account for each Defeased Synthetic Security (each such account, a “Synthetic Security Counterparty Account”), which will be held in the name of the Trustee 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 Defeased Synthetic Security and the Indenture. The Trustee will create a separate sub-account of the Synthetic Security Counterparty Account for each Synthetic Security Agreement entered into by the Issuer. The Issuer will also grant to the Trustee for the benefit of the other Secured Parties, subject to the prior lien of the relevant Synthetic Security Counterparty, a security interest

in any Synthetic Security Collateral or other amounts standing to the credit of a Synthetic Security Counterparty Account. Upon the termination of a Defeased Synthetic Security, the prior lien of the related Synthetic Security Counterparty over any Synthetic Security Collateral standing to the credit of the related Synthetic Security Counterparty Account will be automatically released, and any remaining Synthetic Security Collateral credited to such Synthetic Security Counterparty Account will become subject to a first ranking lien in favor of the Secured Parties.

Except for investment earnings on the Synthetic Security Collateral, the Issuer will not have any legal, equitable or beneficial interest in any of the Synthetic Security Counterparty Accounts other than in accordance with the Indenture, the applicable Defeased Synthetic Security and applicable law. Upon the establishment of any Synthetic Security Counterparty Account, the Issuer will notify the relevant Synthetic Security Counterparty of the Trustee's security interest therein and obtain the Synthetic Security Counterparty's written acknowledgement of such security interest. The fact that the terms of a Defeased Synthetic Security do not require the Issuer immediately to deposit Synthetic Security Collateral in the related Synthetic Security Counterparty Account will not prevent the establishment of such Account.

Upon the purchase of any Synthetic Security Collateral, the Issuer will, by an order of the Issuer executed by the Collateral Manager, instruct the Trustee to deposit such Synthetic Security Collateral in the related Synthetic Security Counterparty Account. In addition, upon any amount becoming due and payable by the Issuer under a Defeased Synthetic Security, the Issuer will, by an order of the Issuer executed by the Collateral Manager, instruct the Trustee to withdraw such amount from the related Synthetic Security Counterparty Account and pay such amount to the applicable Synthetic Security Counterparty.

All deposits into, and payments made out of, the Synthetic Security Counterparty Account will be made without regard to either Priority of Payments or the occurrence of any Event of Default (other than an Event of Default described in clause (vi) of the definition of "Event of Default"). The Trustee will be entitled to receive and rely upon, and will act in accordance with any instruction of the Collateral Manager (acting on behalf of the Issuer), with respect to all withdrawals, deposits and other actions to be taken pursuant to the Synthetic Security Counterparty Account, and such instructions of the Collateral Manager (acting on behalf of the Issuer), will include such information as the Trustee reasonably may require.

Amounts credited to a Synthetic Security Counterparty Account will be invested in Synthetic Security Collateral until they are withdrawn by the Trustee at the direction of the Collateral Manager on behalf of the Issuer and applied to the payment of any amounts payable by the Issuer to the related Synthetic Security Counterparty in accordance with the terms of such Defeased Synthetic Security. In particular:

- (i) Interest payments and redemption premium on the Synthetic Security Collateral will constitute property of the Issuer and will be paid to the Trustee and deposited into the Interest Collection Account for application as Interest Proceeds in accordance with the Priority of Payments. Principal payments on the Synthetic Security Collateral prior to the termination of the Defeased Synthetic Security will be held in the applicable Synthetic Security Counterparty Account and invested in Eligible Investments until reinvested in Synthetic Security Collateral in accordance with the terms of the Indenture and the related Defeased Synthetic Security at the direction of the Collateral Manager on behalf of the Issuer.

- (ii) In the event a Defeased Synthetic Security structured as a credit default swap is terminated prior to its scheduled maturity without the occurrence of a Credit Event, the Collateral Manager on behalf of the Issuer will cause such portion of the related Synthetic Security Collateral or other amounts deposited in the Synthetic Security Counterparty Account pursuant to the Indenture that, in each case, is required to make any termination payment owed to the related Synthetic Security Counterparty (other than any Defaulted Synthetic Termination Payment owing to such Synthetic Security Counterparty) to be delivered to the related Synthetic Security Counterparty and will cause the remaining related Synthetic Security Collateral (if any) to the extent not required to be pledged to the related Synthetic Security Counterparty to be released from the lien of the related Synthetic Security Counterparty and delivered to the Trustee free of such lien.

- (iii) In the event that no Credit Event under a Defeased Synthetic Security structured as a credit default swap has occurred prior to the termination or scheduled maturity of the Defeased Synthetic Security, upon

the termination or scheduled maturity of the Defeased Synthetic Security, the related Synthetic Security Counterparty's lien on the Synthetic Security Collateral (if any) related to the applicable Defeased Synthetic Security will be released and the Collateral Manager on behalf of the Issuer will take or cause the taking of any and all other actions necessary to create in favor of the Trustee a valid, perfected, first-priority security interest in such released Synthetic Security Collateral under applicable law and regulations (including without limitation Articles 8 and 9 of the Uniform Commercial Code in effect at the time of such release).

(iv) Upon the occurrence of a Credit Event under a Defeased Synthetic Security structured as a credit default swap, at the direction of the Collateral Manager (acting on behalf of the Issuer), the Trustee will instruct the custodian to deliver the portion of the related Synthetic Security Collateral (if any) and/or other amounts deposited in the Synthetic Security Counterparty Account pursuant to the Indenture that is necessary to satisfy the Issuer's payment obligations in respect of the remaining payments that the Issuer is or may be required to make thereunder to the related Synthetic Security Counterparty upon delivery of the relevant Deliverable Obligations to the Issuer.

(v) In the event that the Issuer is required to deliver the Synthetic Security Collateral to the related Synthetic Security Counterparty or to liquidate the Synthetic Security Collateral and deliver cash, any market risk on the liquidation of the Synthetic Security Collateral will be allocated between the Issuer and the related Synthetic Security Counterparty in accordance with the Underlying Instruments relating to such Defeased Synthetic Security.

(vi) Any Synthetic Security Collateral released from the lien of the related Synthetic Security Counterparty which satisfies the definition of Eligible Investments will be treated as Eligible Investments and any Synthetic Security Collateral released from the lien of the related Synthetic Security Counterparty which satisfies the definition of Collateral Debt Security will be treated as a Collateral Debt Security and in either case may be retained by the Trustee or sold by the Collateral Manager subject to the restrictions set forth herein, and the Collateral Manager will instruct the Trustee with respect to such treatment of Synthetic Security Collateral. Any cash received upon the maturity or liquidation of the Synthetic Security Collateral released to the Trustee will be deemed to be Principal Proceeds.

The Collateral Manager on behalf of the Issuer will direct the Trustee in writing to withdraw any other amounts held in a Synthetic Security Counterparty Account after payment of all amounts owing from the Issuer to the related Synthetic Security Counterparty in accordance with the terms of the related Defeased Synthetic Security from such Synthetic Security Counterparty Account and deposit such amounts in the Principal Collection Account for application as Principal Proceeds in accordance with the terms of the Indenture.

Except for interest and redemption premium on the Synthetic Security Collateral credited to a Synthetic Security Counterparty Account payable to the Issuer in accordance with the foregoing, amounts contained in a Synthetic Security Counterparty Account will not be considered to be an asset of the Issuer for purposes of any of the Collateral Quality Tests and the Standard & Poor's CDO Monitor Test, but the Defeased Synthetic Security that relates to the Synthetic Security Counterparty Account will be considered an asset of the Issuer for such purposes.

Issuer Collateral 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 will, prior to the Closing Date, cause to be established a single, segregated securities account for any such Synthetic Security which will be held in the name of the Trustee in trust for the benefit of the Secured Parties (each such account, an "Issuer Collateral Account"). The Trustee will deposit into the applicable Issuer Collateral Account all funds and other property that are received from the related Synthetic Security Counterparty to secure the obligations of such Synthetic Security Counterparty in accordance with the terms of the related Synthetic Security.

Amounts on deposit in an Issuer Collateral Account will be invested in Synthetic Security Collateral that satisfies Eligibility Criteria (6) through (8) as directed by the Collateral Manager (acting on behalf of the Issuer), and in accordance with the applicable Synthetic Security. Income received on amounts on deposit in each Issuer

Collateral Account will be withdrawn from such account and paid to the related Synthetic Security Counterparty or the Issuer in accordance with the applicable Synthetic Security.

Posted collateral on deposit in each Issuer Collateral Account will not be included in the Collateral and will not be available to make payments under the Notes other than as a result of an Event of Default, default or Termination Event (howsoever described) under the related Synthetic Security caused by the related Synthetic Security Counterparty. Amounts contained in any Issuer Collateral Account will not be considered to be an asset of the Issuer for purposes of any of the Collateral Quality Tests, but the Issuer's right, title and interest in, to and under any Synthetic Security that relates to such Issuer Collateral Account will be considered assets of the Issuer.

Upon the occurrence of an Event of Default, default or Termination Event (howsoever described) under the related Synthetic Security, amounts contained in the related Issuer Collateral Account will, as directed by the Collateral Manager (acting on behalf of the Issuer), be withdrawn by the Trustee and applied to the payment of any termination payment or other amount payable by the related Synthetic Security Counterparty to the Issuer as a result of such Event of Default, default or Termination Event (howsoever described). Any excess amounts held in an Issuer Collateral Account after payment of all amounts owing from the related Synthetic Security Counterparty to the Issuer as a result of such Event of Default, default or Termination Event (howsoever described) will be withdrawn from such Issuer Collateral Account and paid to the related Synthetic Security Counterparty in accordance with the applicable Synthetic Security.

Reserve Account

The Trustee will, prior to the Closing Date, cause to be established a single, segregated securities account which will be designated as the "Reserve Account", which will be held in the name of the Trustee in trust for the benefit of the Secured Parties. The Trustee will deposit in the Reserve Account, in each case for investment in Reserve Account Investments at the direction of the Collateral Manager on behalf of the Issuer (i) such amounts as are required to be deposited into the Reserve Account pursuant to the Priority of Payments in connection with any reduction of the Remaining Unfunded Class A-1 Commitment Amount, (ii) any Principal Reimbursements received by the Issuer after the Reinvestment Period in respect of any CDS Agreement Transactions, (iii) any draws on the Class A-1 Notes under the Class A-1 Note Purchase Agreement other than in connection with a Class A-1 Permitted Use Payment (including, without limitation, as a result of a ratings downgrade of any Class A-1 Noteholder), (v) any Sale Proceeds transferred to the Reserve Account pursuant to the Indenture, (vi) any Uninvested Proceeds as of the Closing Date and (vii) any amounts transferred from the Closing Date Expense Reserve Account pursuant to the Indenture.

At the direction of the Collateral Manager on behalf of the Issuer, any cash standing to the credit of the Reserve Account will be withdrawn therefrom and any Reserve Account Investments credited to the Reserve Account may be liquidated and proceeds of such liquidation will be applied for the following purposes, in the manner provided for in the Indenture: (1) to be credited to the Principal Collection Account for the purchase of Collateral Debt Securities and to make any upfront payments payable by the Issuer in connection with the acquisition of Synthetic Securities, in each case, during the Reinvestment Period (but, in each case, only to the extent of Excess Reserve Account Assets), (2) to fund any Remaining Exposure under the CDS Agreement Transactions, (3) to fund trading termination payments payable by the Issuer in respect of the termination of individual CDS Agreement Transactions, (4) if on any Determination Date there exists a Note Reduction Amount, for deposit in the Payment Account for distribution as Principal Proceeds in accordance with the Priority of Payments on the related Distribution Date to the extent that such withdrawal will not cause the Excess Notional Amount Liquidity to be reduced below zero, (5) for deposit in the Principal Collection Account upon any Optional Redemption, Auction Call Redemption, Tax Redemption or Clean-Up Call 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, (6) on the Distribution Date relating to the first Determination Date occurring more than 20 days after the Ramp-Up Completion Date, to the extent of Excess Reserve Account Assets, transferred to the Payment Account to the extent such funds are required to cure any Ratings Confirmation Failure pursuant to the Indenture and apply such funds in accordance with the Priority of Payments and (7) on the Determination Date in respect of the first Monthly Distribution Date, any Excess Reserve Account Assets to be applied as Interest Proceeds to the extent necessary to pay any interest or commitment fee due and payable on any of the Notes on such Distribution Date pursuant to "Priority of Payments—Interest Proceeds", to the extent that Interest Proceeds otherwise available would be insufficient therefor; *provided* that any

application of funds from the Reserve Account to the Interest Collections Account pursuant to this Clause (7) shall not exceed \$825,000 in the aggregate and shall not result in a reduction of the Net Outstanding Portfolio Collateral Balance to an amount below U.S.\$1,100,000,000.

Funds and other property standing to the credit of the Reserve Account may be transferred to a Synthetic Security Counterparty Account during the Reinvestment period in order to fund the acquisition by the Issuer of any Synthetic Security Collateral to the extent required pursuant to the terms of the related Defeased Synthetic Security.

On any date on which the Issuer is required to fund any Remaining Exposure, purchase price of a Collateral Debt Security or trading termination payment in respect of a CDS Agreement Transaction, at the direction of the Collateral Manager, the Issuer will apply amounts standing to the credit of the Reserve Account to the satisfaction thereof but only to the extent that there are insufficient funds available therefor standing to the credit of the Principal Collection Account. If on any Determination Date relating to a Distribution Date there exists a Note Reduction Amount, Reserve Account Investments in an amount equal to the greater of (A) the Excess Notional Amount Liquidity and (B) such Note Reduction Amount (or such lesser amount as may be required (x) by minimum denomination and transfer requirements applicable to the Reserve Account Investments or (y) to not cause the Excess Notional Amount Liquidity to be reduced below zero) may at the direction of the Collateral Manager on behalf of the Issuer (or, in the case of any Excess Notional Amount Liquidity or Note Reduction Amount occurring after the Reinvestment Period, will) be liquidated and the proceeds of such liquidation will be transferred to the Principal Collection Account for application as Principal Proceeds in accordance with the Priority of Payments on the Distribution Date relating to such Determination Date. On the date on which substantially all of the Issuer's assets have been sold or otherwise disposed of and all Synthetic Securities terminated, the Issuer will direct the Trustee to transfer all funds and other property standing to the credit of the Reserve Account to the Principal Collection Account for application as Principal Proceeds in accordance with the Priority of Payments.

All funds credited to the Reserve Account will be invested by the Trustee at the direction of the Issuer (or the Collateral Manager on behalf of the Issuer) in Reserve Account Investments. "Reserve Account Investments" means an investment that matures or is cancellable by the Issuer no later than the Business Day prior to the Distribution Date next succeeding the date of such investment where the issuer is rated "Aaa" by Moody's (*provided* that, if such issuer's long-term debt rating is not at least "Aaa" by Moody's (and if "Aaa", not on credit watch for possible downgrade below "Aaa") and short-term debt rating is not at least "P-1" by Moody's (and if "P-1", not on credit watch for possible downgrade below "P-1")), such issuer will be replaced by an issuer with a Moody's rating of "Aaa"), or an investment that is any of the following: (i) any Eligible Investment or any investment that satisfies the definition of "Eligible Investments" except that the counterparty thereto has a long term rating of not less than "AA-" by Standard & Poor's, not less than "A" by Fitch and not less than "Aa3" by Moody's (and, if rated "Aa3" by Moody's, such rating is not on watch for possible downgrade by Moody's) and a short term credit rating at least "A-1+" by Standard & Poor's (or "A-1" with respect to overnight time deposits offered by LaSalle Bank National Association), at least "F1" by Fitch and "P-1" by Moody's (and, if so rated by Moody's, such rating is not on watch for possible downgrade by Moody's) at the time of such investment, (ii) deposits with CALYON so long as CALYON's long-term debt rating is at least "Aa3" by Moody's and short-term debt rating is at least "P-1" by Moody's or (iii) a repurchase obligation that has a term not exceeding 45 years and entered into with CALYON with respect to (A)(x) any security described in clause (b) and clause (f) of the definition of Eligible Investments or (y) any Insurance Company Guaranteed Security where the insurer is rated "Aaa" by Moody's and "AAA" by S&P ("Type A Investments") and (B) any RMBS Securities and CDO Securities that are rated at least "Aa" by Moody's, "AA" by Standard & Poor's or "AA" by Fitch ("Type B Investments"); *provided* that (1) if CALYON's long-term ratings are downgraded below "Aa3" by Moody's, then the Type B Investments will be deemed to be a percentage of the par value thereof, determined in accordance with Schedule F attached hereto and (2) such Type B Investments may be subject to additional advance rates (without duplication of clause (i)) to comply with Standard & Poor's Criteria as in effect from time to time; *provided, further*, that CALYON will commit to provide a repurchase obligation for an amount of at least 25% of the Net Outstanding Portfolio Collateral Balance, which amount will earn a rate of return of at least LIBOR *minus* 0.05%, and any interest above LIBOR will be applied as Principal Proceeds in accordance with the Priority of Payments and each of which investments will mature no later than the Stated Maturity; *provided, further*, that (A) Reserve Account Investments may not include any investment the income from or proceeds of disposition of which is or will be subject to deduction or withholding for or on account of any withholding or similar tax unless the payor is required to make "gross up" payments that 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 been required and (B) any assets credited to the Reserve Account in response to a requirement to fund the Reserve Account pursuant to paragraph 5(a)(IV) of “Priority of Payments – Principal Proceeds” above will be invested only to Reserve Account Investments satisfying clauses (i) and (ii) of this definition. The Credit Default Swap Counterparty will bear any par value losses of Reserve Account Investments standing to the credit of the Reserve Account to the extent any amounts payable by the Issuer to the Credit Default Swap Counterparty under the Credit Default Swap is made using such Reserve Account Investments.

Except to the extent required in order for the Issuer to comply with its obligations in respect of any Remaining Exposure or trading termination payments in respect of a CDS Agreement Transaction or if such transfer would cause the Excess Notional Amount Liquidity to be reduced below zero, the Trustee, upon the Collateral Manager’s direction, will transfer on each Distribution Date, all interest and other income received in respect of Reserve Account Investments standing to the credit of the Reserve Account to the Interest Collection Account. Any losses resulting from Reserve Account Investments (other than par value losses with respect to amounts payable to the Credit Default Swap Counterparty) will be charged to the Reserve Account.

The Trustee will give the Issuer, the Credit Default Swap Counterparty and the Class A-1 Noteholder prompt notice if the Reserve Account or any funds or other property standing to the credit of the Reserve Account will become subject to any writ, order, judgment, warrant of attachment, execution or similar process. The Reserve Account will remain at all times with the Trustee or with a financial institution having a long-term debt rating of at least “Baa1” by Moody’s (and if rated “Baa1”, such rating shall not be on watch for downgrade by Moody’s) and at least “BBB+” by Standard & Poor’s and a combined capital and surplus in excess of U.S.\$200,000,000.

Closing Date Expense Reserve Account

On the Closing Date, the Collateral Manager will designate a specified amount of the net proceeds of the offering of the Securities to be deposited to a single, segregated account established and maintained by the Trustee under the Indenture (the “Closing Date Expense Reserve Account”) for the benefit of the Secured Parties. The Trustee will withdraw funds from the Closing Date Expense Reserve Account at the direction of the Collateral Manager on behalf of the Issuer for application to pay any fees and expenses of the Co-Issuers incurred in connection with the offering of the Securities that are payable from time to time following the Closing Date. On the Determination Date occurring prior to the Distribution Date in April 2007 or on any prior Business Day upon issuer order delivered by the Collateral Manager on behalf of the Issuer, the Trustee will withdraw any funds remaining on deposit in the Closing Date Expense Reserve Account on such date and apply such remaining amounts to the Reserve Account.

Application of Funds From Accounts

If the Issuer is required to make a Credit Protection Payment or CDS Termination Payment to the Credit Default Swap Counterparty pursuant to the Credit Default Swap Agreement, the Issuer will satisfy such payment by applying amounts from, *first*, only with respect to the Interest Shortfall payments, the Interest Collection Account; *provided* that application of such funds from the Interest Collection Account shall not cause a default in the payment of interest or commitment fee, as applicable, due and payable on the Class A Notes or Class B Notes on the immediately following Distribution Date, *second*, the Principal Collection Account until the balance in such account is reduced to zero, *third*, from the Reserve Account, until the Reserve Account is reduced to zero and *fourth*, by effecting a borrowing under the Class A-1 Notes pursuant to the Class A-1 Note Purchase Agreement, until all outstanding borrowings under the Class A-1 Notes equals the Maximum Class A-1 Principal Amount, in each case in the amount necessary to satisfy such payments.

In connection with the purchase of a Collateral Debt Security (other than a Synthetic Security) by the Issuer at any time after the Closing Date in accordance with the requirements of the Indenture, the Trustee will apply amounts credited to the Accounts in the following priorities in order to effect such purchase of any such Collateral Debt Securities: (i) *first*, from the Principal Collection Account, until the balance in such account is reduced to zero; and (ii) *second*, from the Reserve Account, until the earlier to occur of (x) the par value of cash and Reserve Account Investments standing to the credit of the Reserve Account is reduced to zero or (y) the Excess Notional Amount Liquidity is reduced below zero as a result of any further application of proceeds from the Reserve Account.

THE CREDIT DEFAULT SWAP AGREEMENT

General

On or prior to the Closing Date, the Issuer will enter into a 1992 ISDA Master Agreement (Multicurrency-Cross Border) (together with the schedule and any confirmations thereto, the “Initial Credit Default Swap Agreement”) with CALYON, a French banking corporation (in such capacity, the “Initial Credit Default Swap Counterparty”), under which the Issuer and the Initial Credit Default Swap Counterparty will on the Closing Date and from time to time thereafter enter into Synthetic Securities in the form of credit default swap transactions (each, together with any other credit default swap transactions entered into with any other Credit Default Swap Counterparty under any Credit Default Swap Agreement, a “CDS Agreement Transaction”) with respect to specified Reference Obligations under which, subject to the limitations set forth in the Investment Criteria, CALYON will act as buyer and the Issuer will act as seller of protection. Each CDS Agreement Transaction will constitute a “Synthetic Security” for all purposes of the Indenture.

After the Closing Date, the Issuer may from time to time enter into additional credit default swap agreements (such credit default swap agreements together with the Initial Credit Default Swap Agreement are collectively described in this Offering Memorandum as the “Credit Default Swap Agreement”) with one or more credit default swap counterparties (such credit default swap counterparties together with the Initial Credit Default Swap Counterparty are collectively referred to in this Offering Memorandum as the “Credit Default Swap Counterparty”), in each case upon satisfaction of the Rating Condition.

The Collateral Manager will only direct the Issuer to enter into CDS Agreement Transactions with the Credit Default Swap Counterparty that themselves satisfy, and with respect to which all Reference Obligations would satisfy, if acquired directly by the Issuer, the definition of “Collateral Debt Security” (as of the effective date of the relevant CDS Agreement Transaction). In addition, each CDS Agreement Transaction will require physical settlement upon the occurrence of a Credit Event thereunder by delivery of a Deliverable Obligation unless the Credit Default Swap Counterparty elects that the Issuer will pay Credit Protection Payments upon the occurrence of a Credit Event that is a Floating Amount Event. The Collateral Manager will certify that the CDS Agreement Transactions included in the Collateral on the Closing Date satisfy the requirements of the definition of “Collateral Debt Security” (including the Investment Criteria) and certain other requirements set forth in the Indenture.

Each of the CDS Agreement Transactions is subject to and incorporates the 2003 ISDA Credit Derivatives Definitions, as published by the International Swaps and Derivatives Association, Inc. (“ISDA”) (as so supplemented and as the same may be amended, modified or otherwise supplemented from time to time, the “Credit Derivatives Definitions”).

Each CDS Agreement Transaction will be entered into under a separate trade confirmation in the form attached to a master confirmation and constitute a separate transaction thereunder. Accordingly, a sale or other disposition in whole or in part of a CDS Agreement Transaction will constitute a termination or partial termination (as applicable) of such CDS Agreement Transactions.

It is currently expected that the aggregate Notional Amount of CDS Agreement Transactions will be approximately equal to U.S.\$928,000,000 on the Closing Date and the Issuer will be the seller of protection under all such CDS Agreement Transactions. All of the CDS Agreement Transactions will be subject to the Collateral Quality Tests and the Investment Criteria to the extent described herein.

Payments to the Credit Default Swap Counterparty in respect of any CDS Agreement Transactions (including trading termination payments payable upon the termination of an individual CDS Agreement Transaction but excluding any termination payments payable upon the termination in full of the Credit Default Swap Agreement due to an “Event of Default” or “Termination Event” thereunder) will be made on the date when such payment is due without regard to the Priority of Payments. Amounts will be funded for such purpose by the Issuer applying (A) *first*, with respect to Interest Shortfall payments, amounts standing to the credit of the Interest Collection Account; *provided* that application of such funds from the Interest Collection Account shall not cause a default in the payment of interest or commitment fee, as applicable, due and payable on the Class A Notes or Class B Notes on

the immediately following Distribution Date, (B) *second*, amounts standing to the credit of the Principal Collection Account, (C) *third*, if amounts available under clause (A) and (B) are not sufficient, amounts standing to the credit of the Reserve Account, (C) *fourth*, if amounts available under clauses (A) through (C) are not sufficient, Credit Protection Payments requested from the Class A-1 Noteholder pursuant to the Class A-1 Note Purchase Agreement. Payments to the Credit Default Swap Counterparty in respect of any termination payments payable upon the termination in full of the Credit Default Swap Agreement will be made on a Distribution Date subject to and in accordance with the Priority of Payments. See “Description of the Notes—Priority of Payments”.

The obligations of the Issuer to pay a Credit Default Swap Counterparty will exist irrespective of whether the Credit Default Swap Counterparty suffers a loss on a Reference Obligation upon the occurrence of a Credit Event. The Issuer will have no rights of subrogation under the CDS Agreement Transactions.

Terms of CDS Agreement Transactions -- RMBS Securities and CMBS Securities

CDS Agreement Transactions for which the underlying Reference Obligations are either RMBS Securities or CMBS Securities will be documented by the most recently published ISDA confirmation that is substantially in the form of the template for “Credit Derivative Transaction on Mortgage-Backed Security With Pay-As-You-Go or Physical Settlement (Form I) (Dealer Form)”, which form will have a pay-as-you-go settlement format with a physical settlement option. As of the Closing Date, the Issuer will enter into CDS Agreement Transactions for which the underlying Reference Obligations will be either RMBS Securities or CMBS Securities.

The Credit Events applicable to each CDS Agreement Transaction for which the underlying Reference Obligations are either RMBS Securities or CMBS Securities 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 of the related Reference Obligation, 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;

provided that the failure by the Reference Obligor (or any insurer thereof) to pay any such amount in respect of principal in accordance with the foregoing will 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 relating to the Reference Obligation 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.

For purposes of the foregoing, “Final Amortization Date” means the first to occur of (i) the date on which the Notional Amount of the CDS Agreement Transaction 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 or subordination 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 (*provided* that the buyer of protection does not own 100% 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;

provided that, for purposes of determining any premium payments owing from the Credit Default Swap Counterparty to the Issuer, any Implied Writedown Amount will not cause a decrease in the Notional 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 will 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 after 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 will 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 after 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 will 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 after such withdrawal.

Credit Events under each CDS Agreement Transaction will be physically settled; *provided* that, in the case of a Writedown or a Failure to Pay Principal, the protection buyer may elect to receive a Credit Protection Payment from the protection seller rather than physical settlement. Multiple Credit Event Notices may be delivered with respect to each CDS Agreement Transaction.

Each CDS Agreement Transaction is designed to replicate the risk transfer profile of an actual holding of Asset-Backed Securities. Asset-Backed Securities have inherent risks that differ in nature to corporate credit risk, most notably the fact that the obligor is relying on the timely receipt of cash flows from the underlying assets (and therefore has limited control over its ability to pay investors). Distressed scenarios can occur where the cash-flows of the Asset-Backed Security are adversely affected without triggering an Event of Default under the terms thereof. As well as the Credit Events that trigger physical settlement described above, each CDS Agreement Transaction requires the protection seller to pay floating amounts to the protection buyer in amounts equal to (subject to any adjustments set forth in the relevant confirmation to reflect any applicable percentage or reference price) any principal shortfalls, written down amounts and interest shortfalls under the Reference Obligation (calculated, in the case of principal shortfalls and interest shortfalls, as the expected amount less the actual amount received) upon the occurrence of, respectively, a Failure to Pay Principal, Writedown or Interest Shortfall (any such payment, a “Credit Protection Payment”). A CDS Agreement Transaction 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 the protection buyer

may elect to deliver a Credit Event Notice in respect thereof in which case the relevant CDS Agreement Transaction will be physically settled and no further Credit Protection Payments will be payable).

Credit Protection Payments made by the seller of protection will be contingent insofar as the protection buyer will be required to reimburse all or part of such Credit Protection Payments to the Issuer if they are ultimately paid by the Reference Obligor to holders of the Reference Obligation within 365 days after the termination of such CDS Agreement Transaction (any such payment, (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”). However, in the case of an Interest Reimbursement, the protection buyer generally will be entitled to receive recovery of any portion of the Interest Shortfall for which it was not compensated by the seller of protection before it makes any payment in respect of an Interest Reimbursement to the Issuer.

A Writedown or Failure to Pay Principal in respect of a Reference Obligation will entitle the protection buyer to elect whether to deliver a Credit Event Notice or require a contingent Credit Protection Payment under the related CDS Agreement Transaction.

Generally, on each day falling five business days after a Reference Obligation payment date, or in the case of a Reference Obligation that is a CMBS that is part of a U.S. issue, the 25th calendar day of the month following a Reference Obligation payment date, the buyer of protection will be required to pay to the seller of protection with respect to each CDS Agreement Transaction (and not on a portfolio basis) an amount equal to the product of (i) the applicable fixed rate *multiplied by* (ii) an amount equal to (A) the sum of the 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* (iii) the actual number of days in the related Reference Obligation calculation period *divided by* 360.

Under each CDS Agreement Transaction, the parties to the Credit Default Swap Agreement will elect to cap the interest shortfall risk being transferred to the protection seller by limiting amounts to be paid by the protection seller to the protection buyer to the amount of premium payable by the protection buyer under the CDS Agreement Transaction on the first premium payment date immediately following the Reference Obligation payment date on which the relevant interest shortfall occurred.

The premium payable to the Issuer by the Credit Default Swap Counterparty under a CDS Agreement Transaction will be at the quoted premium rate *minus* an agreed-upon intermediation fee.

Settlement

The CDS Agreement Transactions will be physically settled except as described above. Accordingly, it is expected that, upon settlement of a CDS Agreement Transaction, the buyer of protection will deliver to the seller of protection the Deliverable Obligations specified in the notice of physical settlement and the seller of protection will pay to the buyer of protection the agreed Physical Settlement Amount that corresponds to the Deliverable Obligations that the buyer of protection has delivered. Each CDS Agreement Transaction will provide that the buyer of protection, when providing a notice of physical settlement, may specify an amount (the “Exercise Amount”) that is less than the 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 which case the rights and obligations of the parties under the CDS Agreement Transaction will continue and the buyer of protection 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 CDS Agreement Transaction will provide that only Reference Obligations may constitute Deliverable Obligations. Pursuant to clause (ii) of the definition of “Collateral Debt Security”, Deliverable Obligations constitute Collateral Debt Securities. 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 “Security for the Notes—Dispositions of Collateral Debt Securities”.

The “Physical Settlement Amount” for CDS Agreement Transactions will be an amount equal to (a) the product of the Exercise Amount and an agreed reference price (which is currently expected to be 100% under the majority of the CDS Agreement Transactions) *minus* (b) the sum of: (i) the product of (A) the aggregate of all Implied Writedown Amounts with respect to the relevant Reference Obligation determined immediately prior to the relevant delivery and (B) the relevant Exercise Percentage and (ii) the product of (A) the aggregate principal amount of the Reference Obligation which is subject to a Writedown (as the same may be reduced by any reimbursement obligations of the buyer of protection (to the extent paid by such buyer of protection) under the relevant CDS Agreement Transaction) 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.

If the buyer of protection delivers Deliverable Obligations in an amount greater than the Deliverable Obligations specified in the notice of physical settlement, the seller of protection will not be required to pay more than the Physical Settlement Amount that corresponds to the Deliverable Obligations specified in the notice of physical settlement. The Credit Default Swap Counterparty is expected to seek to eliminate its credit exposure to the Reference Obligations by entering into back-to-back hedging transactions.

Where the buyer of protection 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, then such notice of physical settlement will be deemed not to have been delivered. In no event will full or partial cash settlement apply.

Ratings Provisions

The Credit Default Swap Counterparty must satisfy the Synthetic Security Counterparty Ratings Requirement. It will be a “Credit Default Swap Collateralization Event” if the Rating Determining Party with respect to the Credit Default Swap Counterparty fails to satisfy the Synthetic Security Counterparty Ratings Requirement. It is expected that other Synthetic Security Counterparties will be subject to similar ratings requirements.

Following the occurrence of a Credit Default Swap Collateralization Event due to a failure to satisfy the definition of Synthetic Security Counterparty Ratings Requirement, the Credit Default Swap Counterparty will be required to post collateral and deliver a security interest opinion to Standard & Poor’s and Moody’s pursuant to, and in an amount described in, the Credit Default Swap Agreement; *provided* that if the Credit Default Swap Counterparty has not, within 10 days following a Credit Default Swap Collateralization Event, (A) provided such collateral, (B) obtained a full and unconditional guarantee of all of its obligations under the Credit Default Swap Agreement pursuant to a form of guarantee that satisfies the then current guarantee criteria publicly available from Standard & Poor’s from a guarantor that satisfies the Synthetic Security Counterparty Ratings Requirement, (C) assigned all of its obligations under the Credit Default Swap Agreement to an assignee that satisfies the Synthetic Security Counterparty Ratings Requirement or (D) taken such other action as will satisfy the Rating Condition, a “Credit Default Swap Ratings Event” will be deemed to have occurred.

It will also be a “Credit Default Swap Ratings Event” if the Rating Determining Party with respect to the Credit Default Swap Counterparty fails to satisfy the Replacement Ratings Requirement. “Replacement Ratings Requirement” means a requirement which will be satisfied if the Credit Default Swap Rating Determining Party has (x) a short-term debt rating of at least “A-2” by Standard & Poor’s and a long-term debt rating of at least “BBB+” by Standard & Poor’s, (y) a short-term debt rating of at least “F2” by Fitch and a long-term debt rating of at least “BBB+” by Fitch and (z) a short-term debt rating of “P-2” by Moody’s or a long-term debt rating of at least “A3” by Moody’s.

If a Credit Default Swap Ratings Event occurs with respect to any Rating Determining Party, such Rating Determining Party, at its sole expense, will be required to (x) seek actively to obtain a substitute counterparty that (i) satisfies the Rating Condition, (ii) either (A) satisfies the Synthetic Security Counterparty Ratings Requirement or (B)(1) does not satisfy the Synthetic Security Counterparty Ratings Requirement but has complied with the collateral delivery obligations set forth in the Credit Default Swap Agreement as if a Credit Default Swap Collateralization Event has occurred with respect to a substitute counterparty and (2) satisfies the Replacement

Ratings Requirement and (iii) will not, as a result of such transfer, be required to withhold or deduct on account of tax under the Credit Default Swap Agreement, and the transfer to which will not result in a “Termination Event” or “Event Of Default” (each as defined in the Credit Default Swap Agreement) under the Credit Default Swap Agreement or (y) take such other action that will satisfy the Rating Condition. If the Credit Default Swap Counterparty does not find such a replacement within ten (10) days following the occurrence of a Credit Default Swap Ratings Event, an “Additional Termination Event” (as defined in the Credit Default Swap Agreement) will be deemed to occur with respect to which the Credit Default Swap Counterparty is the sole “Affected Party” (as defined in the Credit Default Swap Agreement).

Conditions to Settlement

In order for a Physical Settlement Amount to be due from seller of protection to the buyer of protection in respect of a CDS Agreement Transaction, the Conditions to Settlement must be satisfied in relation to the relevant Reference Obligation. The “Conditions to Settlement” in relation to a Reference Obligation are that:

- (i) a Credit Event has occurred with respect to that Reference Obligation during the period from (and including) the effective date thereof to (and including) the applicable scheduled termination date of the related CDS Agreement Transaction;
- (ii) the protection buyer has delivered a Credit Event Notice to the protection seller that is effective during the period from and including the effective date to and including the date that is 14 calendar days after the scheduled termination date or any later date permitted under the terms of the CDS Agreement Transaction (the “Notice Delivery Period”);
- (iii) the protection buyer has delivered the Notice of Publicly Available Information to the protection seller that is effective during the Notice Delivery Period; and
- (iv) the protection buyer has delivered a notice of physical settlement to the protection seller that is effective no later than thirty calendar days after the first date on which both the Credit Event Notice and the Notice of Publicly Available Information are effective.

Only the protection buyer has a right (but not an obligation) to deliver a Credit Event Notice and a Notice of Publicly Available Information with respect to any Reference Obligation for which a Credit Event has occurred.

Amendment of the Credit Default Swap Agreement

No material amendment, modification or waiver in respect of the Credit Default Swap Agreement may be entered into by the Issuer and the Credit Default Swap Counterparty unless (i) a copy of such proposed amendment, modification or waiver has been delivered to the Trustee and the Collateral Manager no less than 10 Business Days prior to the proposed effective date thereof, (ii) the Class A-1 Noteholder consents to such amendment, modification or waiver and (iii) such material amendment, modification or waiver satisfies the Rating Condition. In addition, the Credit Default Swap Agreement will not be amended if such amendment would materially adversely affect any Class of Notes unless (A) notice of such amendment has been delivered by the Issuer (or the Trustee on behalf of the Issuer) to the Noteholders of each such Class materially adversely affected thereby and (B) a Majority of the Noteholders of each such Class has not, within the period specified in the Credit Default Swap Agreement after receipt of such notice, informed the Issuer that such Class objects to such amendment. Notwithstanding the foregoing, any Credit Default Swap Agreement may be amended to conform to updates and recent developments to industry practice as reflected by publications and updated forms prepared by the International Swaps and Derivatives Association, Inc. upon satisfaction of the Rating Condition; *provided* that such amendment would not materially adversely affect any Class of Notes.

Termination of the Credit Default Swap Agreement

The Credit Default Swap Agreement will be subject to termination by the Issuer or the Credit Default Swap Counterparty, whether or not the Notes have been paid in full prior to such termination, upon the occurrence of (i) certain events of bankruptcy, insolvency, conservatorship, receivership or reorganization of the Issuer or the Credit Default Swap Counterparty, (ii) a failure on the part of the Issuer or the Credit Default Swap Counterparty to

make any payment or delivery under the Credit Default Swap Agreement within the applicable grace period or (iii) a change in law making it illegal for either the Issuer or the Credit Default Swap Counterparty to be a party to, or perform an obligation under, the Credit Default Swap Agreement.

“Termination Events” under (and as defined in) the Credit Default Swap Agreement will include:

- (i) certain tax events or a change in tax law affecting the Issuer or the Credit Default Swap Counterparty;
- (ii) a Credit Default Swap Ratings Event;
- (iii) any Auction Call Redemption, Optional Redemption, Tax Redemption or Clean-Up Call Redemption;
- (iv) an Event of Default under the Indenture followed by the liquidation in full of the Collateral; and
- (v) the occurrence of a Termination Event under the Class A-1 Note Purchase Agreement.

The Issuer has agreed to use reasonable efforts to enter into a substitute credit default swap agreement on similar terms to the extent that the Issuer is able to enter into such an agreement (but there is no guarantee that it will be able to do so and *provided* that the Issuer is not the defaulting party or affected party under the Credit Default Swap Agreement). Amounts payable upon any early termination of the Credit Default Swap Agreement will be based substantially upon general replacement transaction valuation methodology. If any net termination payment is payable by the Issuer to the Credit Default Swap Counterparty in connection with the occurrence of any such early termination or Notional Amount reduction, such amount, together with interest on such amount for the period from and including the date of termination to but excluding the date of payment, will be payable on the next succeeding Distribution Date to the extent funds are available for such purpose in accordance with the Priority of Payments (and any portion of such termination payment not paid on such Distribution Date will be payable on the first Distribution Date on which such amount is required to be paid in accordance with the Priority of Payments).

Terms of CDS Agreement Transactions – CDO Securities, REIT Debt Securities and ABX Index

In addition to the CDS Agreement Transactions summarized above, the Issuer will have the ability to enter into CDS Agreement Transactions for which the underlying Reference Obligations are (i) CDO Securities, (ii) REIT Debt Securities and (iii) based on an ABX Index.

A CDS Agreement Transaction for which the underlying Reference Obligation is a CDO Security will be documented by a confirmation that is substantially in the form of the most recently published ISDA template for “Credit Derivative Transaction on Collateralized Debt Obligation With Pay-As-You-Go or Physical Settlement (Dealer Form)” or “Credit Derivative Transaction on Asset-Backed Security With Pay-As-You-Go or Physical Settlement (Form 1) (Dealer Form)” (with appropriate modifications that will be approved in advance by the Rating Agencies).

A CDS Agreement Transaction for which the underlying Reference Obligation is a REIT Debt Security will be documented by the ISDA Master Credit Derivatives Confirmation Agreement (with appropriate modifications that will be approved in advance by the Rating Agencies).

A CDS Agreement Transaction for which the underlying Reference Obligation is based on an ABX Index will be documented by a confirmation which will incorporate the ABX Transaction Standard Terms Supplement (with appropriate modifications that will be approved in advance by the Rating Agencies).

For additional information on the terms of CDS Agreement Transactions for which the underlying Reference Obligations are CDO Securities, REIT Debt Securities or are based on the ABX Index, each of the forms described in this section are available upon request of the Issuer.

For the purpose of all calculations made under the Indenture or the Class A-1 Note Purchase Agreement that are based on the Remaining Exposure under the CDS Agreement Transactions, the Trustee and the Issuer will assume that the Remaining Exposure is the amount (if positive) equal to (i) the Remaining Exposure shown on the most

recent report delivered by the Credit Default Swap Counterparty plus (ii) the aggregate initial Notional Amount of all CDS Agreement Transactions that the Issuer entered into since the date of such report plus (iii) the sum of any Principal Reimbursements paid to the Issuer under CDS Agreement Transactions since the date of such report minus (iv) the aggregate reduction in Notional Amount of all CDS Agreement Transactions since the most recent report delivered by the Credit Default Swap Counterparty. 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 or the Class A-1 Note Purchase Agreement.

THE INITIAL CREDIT DEFAULT SWAP COUNTERPARTY AND CLASS A-1 NOTEHOLDER

The information appearing in this section has been prepared by the Initial Credit Default Swap Counterparty and Class A-1 Noteholder and has not been independently verified by the Co-Issuers, the Initial Purchasers, the Trustee, the Collateral Manager or any other person or entity. Accordingly, the Initial Credit Default Swap Counterparty and Class A-1 Noteholder assume the responsibility for the accuracy, completeness or applicability of such information and to the best of the Initial Credit Default Swap Counterparty and Class A-1 Noteholder's knowledge the information is in accordance with the facts and does not omit anything likely to affect the import of such information. The Initial Credit Default Swap Counterparty and Class A-1 Noteholder do not assume responsibility for any other information in this Offering Memorandum.

General

CALYON ("CALYON") is a limited liability company incorporated in France as a "société anonyme" governed by a Board of Directors registered at the Registre du Commerce et des Sociétés Nanterre under the reference SIREN 304 187 701. Its registered office is at 9 quai du Président Paul Doumer, 92920 Paris La Defense Cedex, Paris, France.

As a French corporation having limited liability, CALYON is subject to Articles L.225-1 and following and Book 2 of the Code de Commerce. As a financial institution, CALYON is subject to Articles L.511-1 and following and L.5531-1 and following of the Code monétaire et financier.

Unless subject to winding up proceedings or an extension of its term, CALYON's term of incorporation will expire on November 25, 2064 as provided for in its constitutional documents.

Historical Background

CALYON was formed by the merger on September 30, 1975 of two French banks, Banque de l'Indochine and Banque de Suez et de l'Union des Mines to form Banque Indosuez and, after its acquisition in 1996 by Caisse Nationale de Crédit Agricole ("CNCA", renamed Crédit Agricole S.A. in November 2001), by merger in 1997 of Banque Indosuez with Unicredit, the French corporate banking specialised subsidiary of CNCA and by the contribution of CNCA's international markets, corporate and trade finance activities to Banque Indosuez, then renamed Crédit Agricole Indosuez ("CAI").

In 1999, the private banking activity of Crédit Agricole Indosuez was reinforced by the contribution of CNCA's specialised subsidiaries (Banque de Gestion Privée in France and Banque de Crédit Agricole Suisse SA). The bank also expanded its market activities in 2000. Then, in 2001, CAI took full control of CPR, a French specialised bank (notably in asset management, structured products, on-line brokerage activities, as well as trading in hybrid products). The merger of CPR with CAI was approved by CAI's Shareholder's Meeting on May 15, 2002.

Finally, following the successful takeover bid of Crédit Lyonnais by Crédit Agricole S.A. in June 2003, CAI benefited from the contribution in kind of the corporate and investment banking activities of Crédit Lyonnais on April 30, 2004. CAI was then renamed CALYON.

Business Description

CALYON is more than 95% directly owned by Crédit Agricole S.A. Crédit Agricole S.A. operates as the central banking institution of the Crédit Agricole Group, a full-service banking group with the largest banking distribution network in France. The shares of Crédit Agricole S.A. have been listed on the French Stock Exchange (le "Premier marché d'Euronext Paris") since December 14, 2001.

CALYON is split into 6 business divisions: Customer Relations; Asset Based Financing (including project financing, aircraft and shipping financing, corporate real estate, export finance); Investment Banking (mergers & acquisitions, IPOs, convertibles, etc.); Equities Brokerage; International Banking (commercial banking and the overview of the network) and Capital Markets.

Financial Statements

CALYON's audited consolidated financial statements for the year ended 2005, CALYON's management report and statutory auditors' report for the year ended 2005 are available on the following website: "www.calyon.com" and from CALYON's registered office.

CALYON's unaudited interim consolidated financial statements as of June 30, 2006, CALYON's management report and statutory auditors' report on the limited review as of June 30, 2006 are available on the following website: "www.calyon.com" and from CALYON's registered office.

CALYON will publish consolidated financial statements for the year ended 2006 when its 2006 shelf registration document is filed with the Autorité des Marchés Financiers "AMF" which CALYON expects will be available by the end of April 2006; CALYON expects an English version of this document will be available by the middle of May 2006.

The above information concerning the expected period of 2006 financials is given as an indication and does not commit CALYON to meet this forecasted schedule.

THE SECURITIES DESCRIBED IN THIS OFFERING MEMORANDUM ARE NOT DEPOSITS OR OBLIGATIONS OF THE INITIAL CREDIT DEFAULT SWAP COUNTERPARTY AND CLASS A-1 NOTEHOLDER OR ANY OF ITS AFFILIATES AND ARE NOT GUARANTEED BY ANY OF THESE ENTITIES.

The above information relates to and has been obtained from the Initial Credit Default Swap Counterparty and Class A-1 Noteholder. The information concerning the Initial Credit Default Swap Counterparty and Class A-1 Noteholder contained herein is furnished solely to provide limited introductory information regarding the Initial Credit Default Swap Counterparty and Class A-1 Noteholder and does not purport to be comprehensive. This information is not guaranteed as to accuracy or completeness, and is not to be construed as representations, by either Initial Purchaser or the Co-Issuers. Except for the foregoing, the Initial Credit Default Swap Counterparty and Class A-1 Noteholder have not been involved in the preparation of, and do not accept responsibility for, this Offering Memorandum.

The delivery of this Offering Memorandum shall not create any implication that there has been no change in the affairs of the Initial Credit Default Swap Counterparty and Class A-1 Noteholder since the date on the cover of this Offering Memorandum, or that the information contained or referred to above is correct as of any time subsequent to such date.

THE COLLATERAL MANAGER

The Collateral Manager has provided the information contained in this section relating to the Collateral Manager (other than the information contained under the subheading “General”) and accepts responsibility for the information contained in this section and the information contained herein. Such information has not been independently verified by the Co-Issuers, the Initial Purchasers, the Trustee or any other person or entity. Accordingly, the Collateral Manager assumes the responsibility for the accuracy, completeness or applicability of such information and to the best of the Collateral Manager’s knowledge the information is in accordance with the facts and does not omit anything likely to affect the import of such information.

General

Certain administrative and advisory functions with respect to the Collateral will be performed by the Collateral Manager under the collateral management agreement to be entered into between the Issuer and the Collateral Manager and dated March 14, 2007 (the “Collateral Management Agreement”). In accordance with the Collateral Quality Tests and Investment Criteria and other requirements set forth in the Indenture, and in accordance with the standard of care set forth in the Collateral Management Agreement and the restrictions and guidelines in the Collateral Management Agreement, the Collateral Manager will select the portfolio of Collateral Debt Securities, Reserve Account Investments and Eligible Investments, and the Collateral Manager will instruct the Trustee with respect to any disposition or tender of a Collateral Debt Security and investment in Reserve Account Investments and Eligible Investments. Pursuant to the terms of the Collateral Management Agreement, the Collateral Manager will monitor the Collateral Debt Securities and provide the Issuer with certain information, as described below, with respect to the composition of the Collateral Debt Securities, any disposition or tender of a Collateral Debt Security, the reinvestment of the proceeds of any such disposition in Reserve Account Investments or Eligible Investments and with respect to the retention of the proceeds of any such disposition or the application thereof toward the purchase of a substitute Collateral Debt Security during the Reinvestment Period. The Collateral Manager will also monitor the Hedge Agreements, the Credit Default Swap Agreement and the Class A-1 Note Purchase Agreement. In addition, pursuant to the terms of the Collateral Administration Agreement (the “Collateral Administration Agreement”) between the Issuer, the Collateral Manager and LaSalle Bank National Association, as Collateral Administrator (the “Collateral Administrator”), the Issuer will retain the Collateral Administrator to prepare 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 the Collateral Manager, and will be treated as an expense of the Issuer under the Indenture and will be subject to the priorities set forth under “Description of the Notes—Priority of Payments”.

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

The Collateral Manager and its Affiliates may engage in other business and furnish investment management, advisory and other types of services to other clients whose investment policies differ from those followed by the Collateral Manager on behalf of the Issuer, as required by the Indenture. The Collateral Manager may make recommendations to or effect transactions for such other clients which may differ from those effected with respect to the Collateral Debt Securities. Some of the Collateral Debt Securities purchased by the Issuer on or prior to the Closing Date may have been held by other clients or Affiliates of the Collateral Manager. The Collateral Manager may direct the Trustee (acting on behalf of the Issuer) to acquire an obligation to be included in the Collateral from the Collateral Manager or any of its Affiliates acting as principal or agent, sell any Collateral Debt Security to the Collateral Manager or any of its Affiliates acting as principal or agent, acquire any Collateral Debt Security for inclusion in the Collateral directly from any account or portfolio for which the Collateral Manager serves as investment adviser or sell any Collateral Debt Security directly to any account or portfolio for which the Collateral Manager serves as investment adviser only to the extent that (a) such purchases were made at fair market value as determined in the Collateral Manager’s judgment exercised in accordance with the standard of care set forth in the Collateral Management Agreement and otherwise on arms’ length terms and (b) the Collateral Manager determined

in accordance with the standard of care set forth in the Collateral Management Agreement that such purchases were consistent with the investment guidelines and objectives of the Issuer, the restrictions contained in the Indenture and applicable law.

The Collateral Manager, its Affiliates and accounts for which the Collateral Manager or any Affiliate thereof acts as investment adviser may at times own Notes of one or more other Classes and Preference Shares. At any given time, the Collateral Manager and its Affiliates will not be entitled to vote the Offered Securities held by any of such Collateral Manager, its Affiliates and accounts for which such Collateral Manager or any Affiliate thereof acts as investment adviser (and for which such Collateral Manager or such Affiliate has discretionary authority) with respect to any assignment or termination of, any of the express rights or obligations of the Collateral Manager under the Collateral Management Agreement or the Indenture (including the exercise of any rights to remove such Collateral Manager or terminate the Collateral Management Agreement or approve or object to a Replacement Manager), or any amendment or other modification of the Collateral Management Agreement or the Indenture increasing the rights or decreasing the obligations of the Collateral Manager. However, at any given time the Collateral Manager and its Affiliates will be entitled to vote Offered Securities held by them and by such accounts with respect to all other matters. See “Risk Factors—Certain Conflicts of Interest”.

VERO Capital Management, LLC

VERO Capital Management, LLC (“VERO”) is a Delaware limited liability company with offices located in New York, New York.

The Collateral Manager, VERO Capital Management, LLC, was founded in 2003 as an independent fixed income alternative asset management firm with majority ownership held by its two founding members, members and senior management. The Collateral Manager operates out of the U.S. with its main headquarters in New York, New York. The Collateral Manager's core discipline is structured finance and asset based finance. It has spent more than three years building and improving its proprietary credit and collateral analytics, and risk and surveillance reporting systems. Since August 2005, the Collateral Manager has been actively analyzing and investing in ABS securities and ABS CDOs, having purchased approximately U.S.\$2.3 billion to date.

The founding members have been involved in asset securitization since the inception of the ABS market in the early 80's, have over 20 years of experience each and have worked in trading and structuring markets in both the U.S. and Europe. The majority of senior management has also been involved in asset securitization for an average of 15 years each. The members have worked together in several capacities and have expertise in the key elements of structured finance including underwriting, ratings, asset management, legal and structured credit.

Biographies

Set forth below is summary biographical information regarding background, principal occupations and other affiliations of key personnel of the Collateral Manager. Such persons may not necessarily continue to be so employed during the entire term of the Collateral Management Agreement or may not continue to perform services for the Collateral Manager under the Collateral Management Agreement.

Gregory Chapman, Founding Member – Member of the Portfolio Management Committee and responsible for investment strategy, credit, product development and due diligence.

Mr. Chapman brings approximately 25 years of direct business experience in portfolio management, fixed income credit and investment, structured finance and private equity investments. His experience spans a number of key areas within investment management and structured finance – ABS, CLOs, HLTs, Private Placements, Private Equity and Financial Guarantees. Mr. Chapman was a founding investor and Director of Peoplefirst.com, the first and leading on-line originator and servicer of consumer auto loans. Mr. Chapman was the Director of Product Development at AEGON USA. He was the first hire by the founders of Financial Security Assurance, Inc. (“FSA”) and served as Managing Director and Co-Head of Asset Finance. Mr. Chapman was a senior Collateral Manager in the private placement fixed income department at TIAA/CREF. Mr. Chapman is a graduate of Columbia University (MBA) and Montclair State University (B.A.).

Robert Geiger, Founding Member – Member of the Portfolio Management Committee and responsible for investment strategy, structuring, collateral analytics and research.

Mr. Geiger brings approximately 22 years of structuring, ABS – product development, credit, collateral research and capital markets experience. His experience spans multiple asset types –Autos, Credit Cards, Conduits, Leases, Corporate Loans, Student Loans, Insurance-Based Securitizations, RMBS and various asset repackagings. Mr. Geiger was Head of Insurance Capital Markets at Paribas. Prior to this he was a Director at UBS in corporate finance and a Director at TD Securities. He brings over 17 years of Wall Street experience in rating, developing, originating, structuring and distributing structured products in the domestic bond and Eurobond markets. His expertise extends to several types of structured finance products, new asset classes, first time collateral and corporate credit products. He began working in the field of ABS collateral in 1984 at Citibank Financial and later at Moody's. Mr. Geiger holds an M.S. from Johns Hopkins University and a B.A. from the University of Dayton.

George Barbaresi, Member – Member of the Portfolio Management Committee and responsible for collateral, surveillance, risk, and legal review of the firm's investment strategies and investment vehicles.

Mr. Barbaresi brings 15 years of legal experience in securities law, public and private financings and capital markets including securitization, derivatives, hedge funds, private equity and venture capital fund transactions. He was Vice President and Counsel at Zurich Capital Markets. Before Zurich, he was a Senior Associate at Pillsbury Winthrop and prior to that was associated with Dechert Price & Rhoads and Latham & Watkins. Mr. Barbaresi received his law degree from the J. Reuben Clark School of Law, Brigham Young University (magnum cum laude, Order of the Coif and Managing Editor, Brigham Young University Law Review). Mr. Barbaresi attended Yale University and Stanford University, receiving his B.S. degree in Petroleum Engineering. He worked as an engineer in the petroleum industry for over 10 years before attending law school. Mr. Barbaresi is admitted to practice law in the States of New York and Connecticut and the District of Columbia.

Michael Majeski, Member – Member of the Portfolio Management Committee and responsible for asset identification, liability management and trading.

Mr. Majeski brings over 14 years of experience in trading, capital markets and research. Mr. Majeski worked in fixed income trading, syndicate, and capital markets at BNP Paribas, most recently running a U.S.\$500 million corporate bond book as Vice President–Credit Trading. He has actively managed credit, interest rate and foreign exchange risks utilizing credit default swaps, interest rate and currency swaps, and Eurodollar and bond futures. Mr. Majeski established the fixed income syndicate desk in New York for BNP, managing underwriting and position risk as Syndicate Manager. Within debt capital markets, he originated and closed many first-time funding transactions for large institutional clients with multi-billion U.S.\$ borrowing requirements, medium term note programs and structured debt funds. Mr. Majeski previously worked in investment consulting and research at Cambridge Associates. He holds an MBA from University of Virginia's Darden Graduate School of Business Administration and a B.A. in Economics from Yale University.

Wade Franks, Member – Member of the Portfolio Management Committee and responsible for asset identification, liability management and trading.

Mr. Franks brings over 17 years of experience in fixed income trading, portfolio management, operations and compliance. As a Vice President and Collateral Manager at State Street Global Advisors, Mr. Franks managed U.S.\$46 billion in securities lending investment portfolios. As a Vice President and Collateral Manager at The Boston Company Asset Management and Standish Mellon Asset Management, Mr. Franks managed multiple fixed income investment strategies including total return short duration, stable value money market and cash equitisation. He managed two Dreyfus retail money market funds that were consistent top quartile performers over 6 years. As Director of Finance at the Student Loan Marketing Association (“Sallie Mae”), Mr. Franks managed an arbitrage portfolio that grew from U.S.\$3 billion to U.S.\$12 billion in assets and was one of the first major institutional purchasers of ABS product. He was also responsible for managing Sallie Mae's repo book, and for actively managing interest rate risk. Mr. Franks holds a B.B.A. in Finance from George Washington University.

Steven Downey, Member – Responsible for financial controls and reporting.

Mr. Downey brings over 25 years of financial control experience specifically involved in regulated entities and investment management companies. Mr. Downey is a CPA with specific expertise in insurance, REITs, consumer finance, asset management, real estate, SEC reporting and financial oversight. Mr. Downey was CFO of Providian Capital Management and Controller of Providian Corporation, a Fortune 200 financial services company, with U.S.\$29 billion in assets, overseeing a staff of over 400 professionals. He has actively managed the following areas: investor and investment banking relationships; strategic planning; risk management; investment and hedging strategies; tax; and reporting. Mr. Downey spent 12 years at Ernst & Young focusing on financial services and security filings. He graduated (with honors) with a B.S. in Accounting from the University of Alabama in 1978.

Brian Fischer – Member of the Portfolio Management Committee and responsible for investment strategy, portfolio management and risk management.

Mr. Fischer brings over 16 years experience in portfolio and risk management, and investment banking. His experience spans across multiple structured asset classes, including Asset-Backed, Mortgage-Backed, Mortgage Derivatives, Emerging Markets and Hedge Funds, and across various investment vehicles. Mr. Fischer was most recently a Managing Director at a boutique that managed fund of hedge fund portfolios and provided business development services for hedge funds. Prior to this, he was a Managing Director and Head of ING's Fund of Hedge Funds group. Before ING, he was a Vice President at J.P. Morgan as a portfolio strategist in the Emerging Markets Research group. He began his portfolio management career as a Vice President at Putnam Investments, where he was a portfolio manager and quantitative analyst in the Domestic Taxable Investment-Grade Fixed Income group overseeing approximately \$5 billion. Mr. Fischer received his MBA from Duke University and his BS from Villanova University, cum laude. He also maintains an active role as an educator and frequently speaks at industry events and universities and is published in scholarly journals including The Journal of Investing and The Emerging Markets Quarterly.

THE COLLATERAL MANAGEMENT AGREEMENT

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

As compensation for the performance of its obligations as Collateral Manager under the Collateral Management Agreement, the Collateral Manager will receive a fee (the “Collateral Management Fee”), to the extent of the funds available for such purpose in accordance with the Priority of Payments or to the extent certain conditions are met. The Collateral Management Fee will consist of the Senior Collateral Management Fee and the Subordinate Collateral Management Fee.

The “Senior Collateral Management Fee” means the fee payable to the Collateral Manager in arrears on each Monthly Distribution Date pursuant to the Collateral Management Agreement in an amount equal to 0.10% per annum of the Monthly Asset Amount for such Monthly Distribution Date. Any accrued and unpaid Senior Collateral Management Fee that is due but unpaid as a result of the operation of the Priority of Payments will be deferred (without any interest accruing thereon) and will be payable on (i) each subsequent Monthly Distribution Date on which funds are available therefor in accordance with the Priority of Payments, until paid in full and (ii) the occurrence of a Redemption Date. Any Senior Collateral Management Fee accrued but not paid prior to the resignation or removal of a Collateral Manager will be paid to such Collateral Manager on the Monthly Distribution Date immediately following the effectiveness of such resignation or removal.

The “Tier 1 Subordinate Collateral Management Fee” means the fee payable to the Collateral Manager in arrears on each Monthly Distribution Date pursuant to the Collateral Management Agreement, in an amount (as certified by the Collateral Manager to the Trustee) equal to 0.05% *per annum* of the Monthly Asset Amount for such Monthly Distribution Date. Any accrued and unpaid Tier 1 Subordinate Collateral Management Fee that is due but unpaid as a result of the operation of the Priority of Payments will be deferred (and will accrue interest at a rate equal to LIBOR plus 0.30% as in effect for the current Interest Period) and will be payable on (i) any subsequent Monthly Distribution Date on which funds are available therefor in accordance with the Priority of Payments, until paid in full and (ii) the occurrence of a Redemption Date. Any Tier 1 Subordinate Collateral Management Fee accrued but not paid prior to the resignation or removal of a Collateral Manager will be paid to such Collateral Manager on the Monthly Distribution Date immediately following the effectiveness of such resignation or removal.

The “Tier 2 Subordinate Collateral 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 (as certified by the Collateral Manager to the Trustee) equal to 0.05% *per annum* of the Quarterly Asset Amount for such Quarterly Distribution Date. Any accrued and unpaid Tier 2 Subordinate Collateral Management Fee that is due but unpaid as a result of the operation of the Priority of Payments will be deferred (and will accrue interest at a rate equal to LIBOR plus 0.30% as in effect for the current Interest Period) and will be payable on (i) any subsequent Quarterly Distribution Date on which funds are available therefor in accordance with the Priority of Payments, until paid in full and (ii) the occurrence of a Redemption Date. Any Tier 2 Subordinate Collateral Management Fee accrued but not paid prior to the resignation or removal of a Collateral Manager will be paid to such Collateral Manager on the Quarterly Distribution Date immediately following the effectiveness of such resignation or removal. The Tier 1 Subordinate Collateral Management Fee and the Tier 2 Subordinate Collateral Management Fee are collectively referred to as the “Subordinate Collateral Management Fee”.

The Collateral Manager will be responsible for the ordinary expenses incurred in the performance of its obligations under the Collateral Management Agreement. The Issuer will be responsible for the payment, without duplication, of the following reasonable expenses and costs: (i) any expenditures incurred by the Collateral Manager in effecting or directing purchases, repurchases and sales of Collateral Debt Securities, Eligible Investments and Reserve Account Investments, 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 and remedies in connection with the Collateral Debt Securities, Eligible Investments and Reserve Account 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, (ii) legal advisors, accountants, auditors, record keepers, consultants and other

professionals retained by the Issuer (or by the Collateral Manager on Issuer's behalf), in connection with the services provided by the Collateral Manager pursuant to the Collateral Management Agreement or pursuant to the other transaction documents, including, without limitation, fees and expenses of Rating Agencies incurred in connection with obtaining ratings for Collateral, (iii) legal advisors, consultants and other professionals retained by the Issuer (or by the Collateral Manager on the Issuer's behalf) for the restructuring of, or enforcement of rights under or with respect to, the Collateral, (iv) reasonable travel expenses (airfare, meals, lodging and other transportation) undertaken in connection with the performance by the Collateral Manager of its duties pursuant to the Collateral Management Agreement, the Indenture or the other transaction documents, (v) amounts payable to the Collateral Administrator pursuant to the Collateral Administration Agreement, (vi) any fees for bookkeeping, accounting or record keeping services obtained or maintained with respect to the Issuer (including those services rendered at the Collateral Manager's behest), (vii) the preparation of any reports by the Collateral Manager to Holders of the Securities, (viii) any fees for audit or quality checks with respect to the Collateral, and (ix) fees and expenses of auditors incurred in connection with any consolidation review with respect to the Issuer. Such expenses will be paid by the Issuer in accordance with and subject to the limitations contained in the Indenture. Any compensation, fees and expenses paid to any subsidiary or Affiliate of the Collateral Manager will be borne and paid by the Collateral Manager, and will only be reimbursed by the Issuer if such amounts would have been reimbursed had the Collateral Manager performed such obligations itself (including, but not limited to, services by such Affiliates that would be billed as disbursements in the ordinary course of the Collateral Manager's business).

None of the Collateral Manager, its Affiliates and any of their respective directors, officers, agents, stockholders, agents, partners or employees will be responsible for any action or inaction of the Issuer, the Collateral Administrator or the Trustee in following or declining to follow any advice, recommendation or direction of the Collateral Manager. None of the Collateral Manager, its Affiliates and any of their respective directors, officers, stockholders, agents, partners or employees will be liable to the Issuer, the Co-Issuer, the Trustee, the Preference Share Paying Agent, the Noteholders, the Preference Shareholders, the Initial Purchasers, any Hedge Counterparty or any other person for any expenses, losses, claims, damages, judgments, assessments, charges, demands, costs or other liabilities of any nature whatsoever (collectively, "Liabilities") incurred by the Issuer, the Co-Issuer, the Trustee, the Preference Share Paying Agent, the Noteholders, the Preference Shareholders, the Initial Purchasers, any Hedge Counterparty or such other person that arise out of or in connection with the performance by the Collateral Manager of its duties under the Collateral Management Agreement or under the terms of the Indenture or for any decrease in the value of the Collateral, except (i) by reason of acts or omissions constituting bad faith, willful misconduct or gross negligence in the performance, or reckless disregard of, the obligations of the Collateral Manager under the Collateral Management Agreement or under the Indenture, or (ii) with respect to the information under the section entitled "The Collateral Manager" (other than information set forth under the subheading "General") of the Offering Memorandum, where such information contains any untrue statement of material fact or omits to state a material fact necessary in order to make the statements herein, in the light of the circumstances under which they were made, not misleading. The Collateral Manager and its Affiliates and each of their respective directors, officers, stockholders, partners, members, agents and employees will be entitled to indemnification by the Issuer under certain circumstances (as specified in the Collateral Management Agreement), which will be paid in accordance with the Priority of Payments.

The Collateral Manager may not assign or otherwise transfer its rights or responsibilities under the Collateral Management Agreement (i) unless the Collateral Manager determines that such assignment or transfer will not cause the Issuer, the Co-Issuer or the pool of Collateral to become subject to income or withholding tax that would not otherwise have been imposed; (ii) without the satisfaction of the Rating Condition, provided the Rating Condition need not be satisfied if such assignment or transfer is to an Affiliate of the Collateral Manager; (iii) if such assignment or transfer would constitute an "assignment" under the Investment Advisers Act; and (iv) a Majority of the Controlling Class or 66-2/3% of the Preference Shares (in each case excluding Collateral Manager Securities) objects to such assignment. In addition, the Collateral Manager may, pursuant to the Collateral Management Agreement, enter into arrangements pursuant to which its Affiliates or third parties may perform certain services on behalf of the Collateral Manager, but such arrangements will not relieve the Collateral Manager from any of its duties or obligations thereunder. Any compensation, fees and expenses paid to any subsidiary or Affiliate will be borne and paid by the Collateral Manager, and will only be reimbursed by the Issuer if such amounts would have been reimbursed had the Collateral Manager performed such obligations itself (including, but not limited to, services by such Affiliates that would be billed as disbursements in the ordinary course of the Collateral Manager's business).

The Collateral Manager intends to conduct itself in a manner that would not reasonably be expected to cause the Issuer to become subject to any withholding or other taxes or assessments or to cause the Issuer to be engaged in a U.S. trade or business or otherwise acquiring an interest in a Collateral Debt Security on behalf of the Issuer, the Collateral Manager shall be deemed to have observed the requirements as to the manner of acquisition of such Collateral Debt Security if the Collateral Manager satisfies each of the requirements set forth in certain operating guidelines in the Collateral Management Agreement.

The Collateral Manager may resign upon 90 calendar days' prior written notice to the Issuer, the Trustee, the Rating Agencies, the Credit Default Swap Counterparty, the Class A-1 Noteholder and each Hedge Counterparty; *provided* that (i) no such resignation will be effective unless a Replacement Manager is appointed as described below and (ii) the Collateral Manager will have the right to resign immediately if, due to a change in applicable law or regulation, the performance by the Collateral Manager of its duties under the Indenture or the Collateral Management Agreement would be a violation of such law or regulation.

In addition, the Collateral Management Agreement provides that it will automatically terminate if the Issuer, the Co-Issuer or the pool of Collateral becomes an investment company required to be registered under the Investment Company Act and such requirement has not been eliminated after a period of 45 days.

At any time on or after the Distribution Date occurring in March 2010, the Collateral Manager may be removed by the Issuer without "cause" upon delivery of 90 days' prior written notice to the Collateral Manager, the Trustee, the Rating Agencies, the Credit Default Swap Counterparty, each Hedge Counterparty and any Class A-1 Noteholder (so long as the Aggregate Outstanding Amount of the Class A-1 Notes held by such Class A-1 Noteholder is greater than zero and the related Commitment Termination Dates have not occurred) at the direction of holders of 66-2/3% of the Preference Shares (excluding any Collateral Manager Securities); *provided* that the Issuer will be required to pay the Collateral Manager a termination fee (payable pursuant to the Priority of Payments on the next succeeding Monthly Distribution Date following such termination, and each Monthly Distribution Date thereafter until such Collateral Manager Termination Fee is paid in full) equal to the Senior Collateral Management Fee and Subordinate Collateral Management Fee (each based on the Net Outstanding Portfolio Collateral Balance at the time of such termination) that would have otherwise been earned for the one-year period following the termination date (the "Collateral Manager Termination Fee"). The Collateral Management Agreement also provides that the Collateral Management Agreement may be terminated and the Collateral Manager may at any time be removed for "cause" (as defined in the Collateral Management Agreement) upon 45 days' prior written notice by the Issuer to the Collateral Manager, which will effect such removal at the direction of (i) holders of a Majority of the Aggregate Outstanding Amount of the Controlling Class of Notes or (ii) 66-2/3% of the Preference Shares (excluding in each such calculation any and all applicable Collateral Manager Securities).

"Collateral Manager Securities" means any Notes or Preference Shares beneficially owned by the Collateral Manager or any Affiliate thereof or by an account or fund for which the Collateral Manager or an Affiliate thereof acts as the investment adviser (with discretionary authority).

For purposes of the Collateral Management Agreement, "cause" means any of the following events has occurred:

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

(ii) the Collateral Manager breaches in any material respect any provision of the Collateral Management Agreement or any terms of the Indenture applicable to it and fails to cure such breach within 45 calendar days after notice of such failure is given to the Collateral Manager unless, if such failure is not capable of being cured within 45 days but is capable of being cured within 90 days, the Collateral Manager has taken action that the Collateral Manager believes in good faith will remedy, and that does in fact remedy, such failure within 90 calendar days after notice of such failure is given to the Collateral Manager; provided that such breach could reasonably be expected to have a material adverse effect on the holders of the Notes. If the Collateral Manager takes action that it believes will remedy such failure within 90

calendar days after notice of such failure is given to the Collateral Manager, then the Collateral Manager will give notice thereof to the Holders of the Controlling Class and the Preference Shareholders;

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

(iv) (A) the occurrence of an act by the Collateral Manager that constitutes fraud or criminal activity in the performance of its obligations under the Collateral Management Agreement or (B) the Collateral Manager or any of its executive officers who are primarily responsible for administration of the Collateral being indicted for a felony offense materially related to advisory services with respect to the Collateral; *provided* that any indictment arising from practices that have become the subject of contemporaneous actions against multiple investment advisers will not constitute a Collateral Manager Termination Event for purposes of this clause (iv) (1) unless such indictment otherwise meets the requirements of this clause (iv) and (2) until more than 120 days have expired since the commencement of such indictment during which period the Collateral Manager has failed to cure such indictment; for purposes of this clause (2), an indictment will be deemed to be cured if (I) the Collateral Manager enters into an agreement of settlement with any authority that has commenced an indictment, which agreement is entered into without prejudice to the Collateral Manager or without admission of fault or wrongdoing by the Collateral Manager or (II) the Collateral Manager removes responsibility for the administration of the Collateral from each employee of the Collateral Manager that is the subject of the applicable indictment;

(v) an Event of Default under the Indenture (other than an Event of Default referred to in clauses (iii), (iv), (v) and (vi) of the definition as set forth herein) as a result of a breach by the Collateral Manager under the Collateral Management Agreement or any applicable section of the Indenture;

(vi) either of the Co-Issuers or the pool of Collateral becomes an investment company required to be registered under the Investment Company Act resulting from actions taken or recommended by the Collateral Manager and such requirement has not been eliminated after a period of 45 calendar days; or

(vii) the Collateral Manager consolidates or amalgamates with, or merges with or into, or transfers all or substantially all its assets to, another Person and either (i) at the time of such consolidation, amalgamation, merger or transfer, the resulting, surviving or transferee Person fails to 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 other party to the Collateral Management Agreement, or (ii) the resulting, surviving or transferee Person lacks the capacity to perform the obligations of the Collateral Manager under the Collateral Management Agreement and the Indenture.

Upon the removal, termination or resignation of the Collateral Manager under the Collateral Management Agreement, a successor collateral manager (the “Replacement Manager”) will be appointed as follows: (i) if the Collateral Manager has been removed for cause, within 30 calendar days a Majority of the Aggregate Outstanding Amount of the Controlling Class or a Majority—in—Interest of Preference Shares (excluding in each such calculation any and all applicable Collateral Manager Securities) may nominate a Replacement Manager satisfying the Replacement Manager Conditions; (ii) if the Collateral Manager has been removed or has resigned for any reason other than cause, then within 30 calendar days, the Collateral Manager, a Majority of the Aggregate Outstanding Amount of the Controlling Class or a Majority—in—Interest of Preference Shares (excluding in each such calculation any and all applicable Collateral Manager Securities) may nominate a Replacement Manager satisfying the Replacement Manager Conditions.

If a Replacement Manager is duly nominated pursuant to clause (i) above, such Replacement Manager will be required to be approved by a Majority of the Aggregate Outstanding Amount of the Controlling Class and a Majority—in—Interest of Preference Shares (excluding in each such calculation any and all applicable Collateral Manager Securities).

If a Replacement Manager is duly nominated pursuant to clause (ii) above, such Replacement Manager will be required to be approved by a Majority of the Aggregate Outstanding Amount of (a) the Controlling Class (b) the Class A-2 Notes and Class B Notes (excluding any such Class that is the Controlling Class at such time) voting together as one Class, (c) the Class C Notes, Class D Notes, Class E Notes and Class F Notes (excluding any such Class that is the Controlling Class at such time) voting together as one Class and (d) a Majority-in-Interest of Preference Shares (including in each such calculation any and all applicable Collateral Manager Securities); *provided* that (i) such required majority voting percentage in each case will be based on the Aggregate Outstanding Amount of the Notes actually participating in such vote and not the Aggregate Outstanding Amount of the Notes for the applicable Classes, and (ii) to the extent the Noteholders of any Class (including for such purpose any and all applicable Collateral Manager Securities) object to the appointment of the Replacement Manager, then a Majority-in-Interest of Preference Shares will have the right to purchase all (but not less than all) of the Notes held by such objecting Noteholders at par plus accrued and unpaid interest thereon (including Defaulted Interest, interest on Defaulted Interest and any Deferred Interest, as applicable, and interest thereon) in accordance with the terms set forth below.

If no Replacement Manager is approved in accordance with the procedures above, a second vote will be taken within 30 calendar days and will include on the ballot the nominated Replacement Manager receiving the highest number of total votes from the process set forth in the preceding paragraph. If the nominated Replacement Manager is approved by the requisite Majority of Noteholders and requisite Majority-in-Interest of Preference Shareholders, as applicable, as set forth pursuant to the applicable provisions above, such nominated Replacement Manager will be appointed as the Replacement Manager. In addition, no removal, resignation or termination of the Collateral Manager or any termination of the Collateral Management Agreement will be effective unless the Replacement Manager has agreed in writing to assume all of the Collateral Manager's duties and obligations under the Collateral Management Agreement or a successor agreement and the following requirements for the Replacement Manager are met: (1) it is an established institution that is legally qualified and has the capacity to act as Collateral Manager under the Collateral Management Agreement or any replacement thereof, as successor to the Collateral Manager thereunder, and to assume all of the responsibilities, duties and obligations of the Collateral Manager thereunder and under the applicable terms of the Indenture, (2) its appointment and its performance of the duties specified in the Collateral Management Agreement or a successor agreement (x) will not cause the Issuer or the Co-Issuer or the pool of Collateral to become subject to income or withholding tax that would not have been imposed but for such appointment and (y) will not cause the Issuer or the Co-Issuer or the pool of Collateral to become required to register under the provisions of the Investment Company Act, (3) the Rating Condition has been satisfied with respect to such appointment, and (4) such Replacement Manager has been approved by a Majority of the Controlling Class or otherwise as set forth in the Collateral Management Agreement (the "Replacement Manager Conditions").

Beginning on any date after the Distribution Date occurring in March 2010, to the extent the Noteholders of any Class object to the appointment of the Replacement Manager (such Noteholders shall hereinafter be referred to as "Non-Consenting Noteholders"), then a Majority-in-Interest of Preference Shares shall have the right to purchase all (but not less than all) of the Notes held by such Non-Consenting Noteholders at the Note Purchase Price. Each Non-Consenting Noteholder will be required to complete, sign and deliver to the Issuer, the Trustee and the Note Registrar the following documents (the "Replacement Manager Non-Consent Documents") within 20 calendar days of the appointment of the Replacement Manager (it being understood that any such Replacement Manager Non-Consent Documents received after such time period will be null and void):

(i) a form evidencing such Noteholder's objection to the Replacement Manager in the form of an exhibit to the Indenture;

(ii) to facilitate the purchase option described below, an undertaking, in the form of an exhibit to the Indenture, to the effect that such Non-Consenting Noteholder will not transfer its Notes until the end of the Purchase Option Period unless the proposed transferee of such Notes either:

(A) delivers a similar completed and signed undertaking, in the form of an exhibit to the Indenture, to the Trustee; or

(B) delivers to the Issuer, the Trustee and the Note Registrar a document (in the form of an exhibit O to the Indenture) to the effect that such proposed transferee, with respect to such Notes being transferred,

consents to the appointment of the Replacement Manager (in which case such Notes will not be subject to the purchase option described below).

Any transfer of Notes held by any Non-Consenting Noteholder during the Purchase Option Period will be void and given no effect by the Issuer and the Trustee, unless the transferee delivers the undertaking described in clause (ii) above.

During the period from the date of delivery of the Replacement Manager Non-Consent Documents up to and including the date which is 20 calendar days thereafter (the “Purchase Option Period”), the Majority-in-Interest of Preference Shares and/or any one or more Persons designated for such purpose by the Majority-in-Interest of Preference Shares, will have the option to purchase at one time all of the Notes held by the Non-Consenting Noteholders. Such purchase will be made at the Note Purchase Price within 10 Business Days prior written notice (which will be irrevocable) delivered to the Non-Consenting Noteholders and the Collateral Manager of the Preference Shareholders’ intention to purchase the Notes held by such Non-Consenting Noteholders. The Majority-in-Interest of Preference Shares shall have no obligation or right to purchase any Notes held by any Non-Consenting Noteholder unless such notice is given.

Following a decision to remove the Collateral Manager for cause, the Issuer will not reinvest in or sell Collateral Debt Securities at the direction of the Collateral Manager being so removed other than the sale of Credit Risk Securities, Defaulted Securities and Equity Securities, unless approved by a Majority of the Controlling Class.

No Replacement Manager may be proposed unless such Replacement Manager is prepared and able to assume the duties of the Collateral Manager within 60 calendar days after the date of notice of termination or resignation, and the Collateral Manager will not be released from its obligations under the Collateral Management Agreement until such Replacement Manager has assumed the duties of Collateral Manager. No Replacement Manager may be a beneficial owner or an Affiliate of any beneficial owner of the Controlling Class of Notes (or a party providing credit protection to the Controlling Class) or the Preference Shares. The Issuer, the Trustee, the retiring Collateral Manager and the Replacement Manager will take such action consistent with the Collateral Management Agreement and the terms of the Indenture as will be necessary to effect any such succession.

Any Person into which the Collateral Manager may be merged or converted, or with which it may be consolidated, or any person resulting from any merger, conversion or consolidation to which the Collateral Manager will be a party, or any person succeeding to all or substantially all of the business or assets of the Collateral Manager, will be the successor of the Collateral Manager under the Collateral Management Agreement without execution or filing of any paper with any party hereto or any further act on the part of any of the parties hereto except where an instrument of transfer or assignment is required by law to effect such succession, anything herein to the contrary notwithstanding, provided that (i) unless such person is an Affiliate of the Collateral Manager, the Rating Condition is satisfied with respect to such merger, conversion, consolidation, or succession, and (ii) the requirements set forth in the Collateral Management Agreement will have been satisfied, if applicable.

Pursuant to the Indenture, the Trustee is entitled to exercise the rights and remedies of the Issuer under the Collateral Management Agreement (a) upon the occurrence of an Event of Default until such time, if any, as such Event of Default is cured or waived, (b) upon the occurrence of an event specified in the Collateral Management Agreement pursuant to which the Issuer is entitled to remove the Collateral Manager for “cause” or (c) upon a default in the performance or breach of any covenant, representation, warranty or other agreement of the Collateral Manager under the Collateral Management Agreement or in any certificate or writing delivered pursuant thereto if (i) holders of at least 25% in Aggregate Outstanding Amount of the Notes of any Class give notice of such default or breach to the Trustee and the Collateral Manager and (ii) such default or breach (if remediable) continues for a period of 30 days. The Trustee will not be responsible for determining or verifying whether any such “cause” exists.

The Collateral Manager will act under the Collateral Management Agreement solely as an agent of the Issuer and nothing therein or in any other agreement will be deemed to constitute it as an issuer or co-issuer of any securities issued by the Issuer or the Co-Issuer for purposes of the United States federal securities laws or the securities laws of any state or other jurisdiction, and the Collateral Manager will not be obligated to do anything that would cause it to assume such role.

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”.

The Collateral Management Agreement may not be amended (except in the case of an amendment that is ministerial) without the written consent of a Majority of the Controlling Class and a Majority-in-Interest of Preference Shares and a Ratings Confirmation from Standard & Poor’s.

INCOME TAX CONSIDERATIONS

CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

General

The following discussion summarizes certain U.S. federal income tax consequences of the purchase, beneficial ownership and disposition of Offered Securities. This summary addresses only holders that purchase Offered Securities at initial issuance and beneficially own such Offered Securities as capital assets.

This discussion does not describe all of the tax consequences that may be relevant to a holder in light of its particular circumstances or to holders subject to special rules, such as banks, thrifts, or other financial institutions; insurance companies; securities dealers or brokers, or traders in securities electing mark-to-market treatment; regulated investment companies or real estate investment trusts; small business investment companies; S corporations; partnerships or other entities treated as partnerships for U.S. federal tax purposes; “controlled foreign corporations” or “passive foreign investment companies” for U.S. federal income tax purposes; investors whose functional currency is not the U.S. dollar; certain former citizens or residents of the United States; persons holding Offered Securities as part of a “straddle,” “hedge,” “synthetic security” or “conversion transaction” for U.S. federal income tax purposes, or as part of some other integrated investment; persons subject to the alternative minimum tax; retirement plans or other tax-exempt entities; or persons holding Securities in a tax-deferred or tax-advantaged accounts.

This summary also does not address the tax consequences to shareholders, or other equity holders in, or beneficiaries of, a holder, or any state, local or foreign tax consequences of the purchase, ownership or disposition of Offered Securities.

Except as provided below under “—U.S. Federal Tax Treatment of Non-U.S. Holders of Notes” and “—U.S. Federal Tax Treatment of Non-U.S. Holders of Preference Shares”, this summary deals only with a beneficial owner of the Offered Securities that is (i) an individual who is a citizen or resident of the United States for U.S. federal income tax purposes, (ii) a corporation (or other entity that is treated as a corporation for U.S. federal tax purposes) that is created or organized in or under the laws of the United States or any State (including the District of Columbia), (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source, or (iv) a trust if a court within the United States is able to exercise primary supervision over its administration and one or more United States persons, within the meaning of the Internal Revenue Code of 1986, as amended (the “Code”), have the authority to control all of its substantial decisions (each, a “U.S. Holder”).

For purposes of this summary, a “Non-U.S. Holder” is a beneficial owner of the Securities that is (i) a nonresident alien individual for U.S. federal income tax purposes, (ii) a foreign corporation for U.S. federal income tax purposes, (iii) an estate whose income is not subject to U.S. federal income tax on a net income basis, or (iv) a trust if no court within the United States is able to exercise primary jurisdiction over its administration or if no United States persons have the authority to control all of its substantial decisions.

An individual may, subject to certain exceptions, be deemed to be a resident of the United States for U.S. federal income tax purposes by reason of being present in the United States for at least 31 days in the calendar year and for an aggregate of at least 183 days during a three year period ending in the current calendar year (counting for such purposes all of the days present in the current year, one-third of the days present in the immediately preceding year, and one-sixth of the days present in the second preceding year).

This discussion is based on interpretations of the Code, U.S. Treasury regulations issued thereunder, and rulings, decisions and administrative pronouncements currently in effect (or in some cases proposed on the date hereof), all of which are subject to change or differing interpretation. Any such change or differing interpretation may be applied retroactively and may adversely affect the U.S. federal income tax consequences described herein.

The following summary was not intended or written to be used, and cannot be used, for the purpose of avoiding U.S. federal, state, or local tax penalties. The following summary was written in connection with the promotion or marketing by the Co-Issuers and the Initial Purchasers of the Offered Securities.

PROSPECTIVE PURCHASERS OF OFFERED SECURITIES SHOULD CONSULT THEIR TAX ADVISORS AS TO THE FEDERAL, STATE AND LOCAL TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF OFFERED SECURITIES, AS WELL AS ANY CONSEQUENCES ARISING UNDER THE LAWS OF ANY OTHER TAXING JURISDICTION TO WHICH THEY MAY BE SUBJECT.

U.S. Federal Tax Treatment of the Issuer

The Code provides a specific exemption from U.S. federal income tax on a net income basis for foreign corporations which restrict their activities in the United States to trading in stocks and securities (and any other activity closely related thereto) for their own account, whether such trading (or such other activity) is conducted by the corporation or its employees or through a resident broker, commission agent, custodian or other agent. This particular exemption does not apply to foreign corporations that are engaged in activities in the United States other than trading in stocks and securities (and any other activity closely related thereto) for their own account or that are dealers in stocks and securities.

The Issuer intends to rely on the above exemption and does not intend to operate so as to be subject to U.S. federal income taxes on its net income. However, if it were determined that the Issuer were engaged in a trade or business in the United States for U.S. federal income tax purposes, and the Issuer had taxable income that was effectively connected with such U.S. trade or business (or the Issuer was otherwise subject to U.S. federal income tax on a net income basis), the Issuer would be subject under the Code to the regular U.S. corporate income tax on such taxable income (and possibly to a 30% branch profits tax as well). The balance of this summary assumes that the Issuer is not subject to U.S. federal income tax on its net income. The imposition of such a tax liability would materially affect the Issuer's financial ability to repay the Offered Securities.

The Issuer will be treated as a foreign corporation that is not a bank for U.S. federal income tax purposes.

Treatment of the Issuer with respect to the Credit Default Swap Agreement.

The Issuer will enter into a Credit Default Swap Agreement with the Credit Default Swap Counterparty. Pursuant to the Indenture and the Credit Default Swap Agreement, the Trustee will deliver or cause to be delivered a U.S. Internal Revenue Service Form W-8BEN of the Issuer to the Credit Default Swap Counterparty at the time the Credit Default Swap Agreement is entered into, upon reasonable demand of the Credit Default Swap Counterparty, and prior to the expiration or obsolescence of the form. If the Trustee provides this form, under current law, no U.S. federal withholding or backup withholding taxes will be required to be deducted or withheld from payments by the Credit Default Swap Counterparty to the Issuer and the Issuer will not be subject to U.S. federal income tax with respect to payments under the Credit Default Swap Agreement.

The Issuer expects that payments received on the Collateral Debt Securities and Eligible Investments and under the Class A-1 Note Purchase Agreement and the Hedge Agreements generally will not be subject to withholding taxes imposed by the United States or other countries from which such payments are sourced. There can be no assurance, however, that the Issuer's income will not become subject to net income or withholding taxes in the United States or other countries as the result of unanticipated activities by the Issuer, changes in law, contrary conclusions by relevant tax authorities or other causes. Income from equity securities of U.S. issuers is likely to be subject to U.S. tax. Under current U.S. federal income tax law, the treatment of Synthetic Securities in the form of credit default swaps (including those with "pay as you go" features) is unclear. Certain possible tax characterizations of a credit default swap, if adopted by the U.S. Internal Revenue Service and if applied to Synthetic Securities to which the Issuer is a party, could subject payments received by the Issuer under such Synthetic Securities to U.S. tax. The extent to which United States or other source country taxes may apply to the Issuer's income will depend on the actual composition of its assets. The imposition of unanticipated net income or withholding taxes could materially impair the Issuer's ability to make payments on the Offered Securities.

U.S. Federal Tax Treatment of U.S. Holders of Class A-1 Notes, Class A-2 Notes, Class B Notes, Class C Notes, Class D Notes, Class E Notes and Class F Notes

The Class A-2 Notes, the Class B Notes, the Class C Notes, the Class D Notes, the Class E Notes and the aggregate drawn amount of the Class A-1 Notes issued on the Closing Date will and the Class F Notes should be treated as indebtedness for U.S. federal income tax purposes. The Indenture requires the holders to agree to treat the Notes as indebtedness for U.S. federal, state and local income and franchise tax purposes. The Issuer's characterizations will be binding on U.S. Holders. Nevertheless, the Internal Revenue Service ("IRS") could assert, and a court could ultimately hold, that one or more Classes of Notes are equity in the Issuer. If any Notes are treated as equity in, rather than debt of, the Issuer for U.S. federal income tax purposes, there may be adverse tax consequences to any U.S. Holder of such Notes. The balance of this summary assumes that all of the Notes are treated as debt of the Issuer for U.S. federal, state and local income and franchise tax purposes. In the event such Notes are treated as equity in the Issuer, prospective investors in the Notes should consult their tax advisors regarding the U.S. federal, state and local income and franchise tax consequences to the holders of the Notes and the Issuer.

For U.S. federal income tax purposes, the Issuer, and not the Co-Issuer, will be treated as the issuer of the Notes.

U.S. Federal Tax Treatment of U.S. Holders of the Class A-1 Notes, the Class A-2 Notes and the Class B Notes

Stated Interest. U.S. Holders of the Class A-1 Notes, the Class A-2 Notes and the Class B Notes should report stated interest on such Notes as ordinary interest income when it is paid or accrued, in accordance with their normal method of accounting. U.S. Holders of the Class A-1 Notes will include in gross income payments of the Class A-1 Commitment Fee accrued or received on the Class A-1 Notes in accordance with their usual method of tax accounting.

Sale, Exchange and Retirement of the Class A-1 Notes, the Class A-2 Notes and the Class B Notes. In general, a U.S. Holder of a Class A-1 Notes, Class A-2 Note or Class B Note will have a basis in such Note equal to the cost of such Note, reduced by all payments received by such holder on such Note other than interest. Upon a sale, exchange, or retirement of a Class A-2 Note or Class B 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 and unpaid interest, which will be taxable as such) and the holder's tax basis in such Note. A U.S. Holder of a Class A-1 Note will have a basis in the Note equal to the funded amount of the Class A-1 Note reduced by payments of principal on the Note. 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. In certain circumstances, U.S. Holders that are individuals may be entitled to preferential treatment for net long-term capital gains; however, the ability of U.S. Holders to offset capital losses against ordinary income is limited.

U.S. Federal Tax Treatment of U.S. Holders of the Class C Notes, Class D Notes, Class E Notes and Class F Notes

Original Issue Discount. The Issuer will treat the Class C Notes, Class D Notes, Class E Notes and Class F Notes as issued with original issue discount ("OID") for U.S. federal income tax purposes. The total amount of such discount with respect to a Class C Note, Class D Note, Class E Note and Class F Note will equal the sum of all payments to be received under such Note less its issue price (the first price at which a substantial amount of the Class C Notes, Class D Notes, Class E Notes and Class F Notes is sold to investors). A U.S. Holder of a Class C Note, Class D Note, Class E Note and Class F Note will be required to include OID in income as it accrues. The amount of OID accruing in any accrual period will generally equal the stated interest accruing in that period (whether or not currently due) *plus* any additional amount representing the accrual under a constant yield method of any additional OID represented by the excess of the principal amount of the Class C Notes, Class D Notes, Class E Notes and Class F Notes over their respective issue prices. Accruals of any such additional OID will be based on the weighted average life of the Class C Notes, Class D Notes, Class E Notes and Class F Notes rather than their stated maturity. Accruals of OID will be calculated by assuming that interest will be paid over the life of the Class C Notes, Class D Notes, Class E Notes and Class F Notes based on the value of LIBOR used in setting the rate of interest for the initial Interest Period, and then adjusting the accrual for each subsequent Interest Period based on

the difference between the value of LIBOR used in setting interest for that subsequent Interest Period and the assumed rate. It is possible the IRS could assert and a court could ultimately hold that some other method of accruing OID on the Class C Notes, Class D Notes, Class E Notes and Class F Notes should apply. U.S. Holders of the Class C Notes, Class D Notes, Class E Notes and Class F Notes may be required to include OID in advance of the receipt of cash attributable to such income.

Sale, Exchange and Retirement of the Class C Notes, Class D Notes, Class E Notes and Class F Notes. In general, a U.S. Holder of a Class C Note, Class D Note, Class E Note and Class F Note will have a basis in such Note equal to the cost of such Note (i) increased by any amount includable in income by such U.S. Holder as OID, and (ii) reduced by any payments received on such Note. Upon a sale, exchange, or retirement of a Class C Note, Class D Note, Class E Note and Class F 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 and the U.S. Holder's tax basis in such Note. 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. In certain circumstances, U.S. Holders that are individuals may be entitled to preferential treatment for net long-term capital gains; however, the ability of U.S. Holders to offset capital losses against ordinary income is limited.

Gain or loss recognized by a U.S. Holder on the sale, exchange or retirement of a Class C Note, Class D Note, Class E Note and Class F Note generally will be treated as U.S.-source gain or loss.

Alternate Characterizations. It is possible that the Class C Notes, Class D Notes, Class E Notes and Class F Notes could be treated as "contingent payment debt instruments" for federal income tax purposes. In this event, the timing of a U.S. Holder's OID inclusions could differ from that described above and any gain recognized on the sale, exchange, or retirement of such Notes would be treated as ordinary income and not capital gain.

Section 1272(a)(6). The Notes may be debt instruments described in section 1272(a)(6) of the Code (debt instruments that may be accelerated by reason of the prepayment of other debt obligations securing such debt instruments). Special tax rules principally relating to the accrual of original issue discount, market discount and bond premium apply to debt instruments described in section 1272(a)(6) of the Code. Further, those debt instruments may not be part of an integrated transaction with a related hedge under Treasury Regulation section 1.1275-6. Prospective investors should consult with their own tax advisors regarding the effects of section 1272(a)(6) of the Code.

U.S. Federal Tax Treatment of Tax-Exempt U.S. Holders of Notes

U.S. Holders that are tax-exempt entities should not be subject to the tax on unrelated business taxable income in respect of the Notes unless (i) the Notes constitute "debt financed property" (as defined in the Code) of that entity or (ii) in the case of any Notes that are treated as indebtedness for U.S. federal income tax purposes, such entity also owns more than 50% of the Preference Shares and any Notes that are treated as equity in the Issuer for U.S. federal income tax purposes.

U.S. Federal Tax Treatment of Non-U.S. Holders of Notes

In general, payments on the Notes to a beneficial owner of a Note that is a Non-U.S. Holder and gain realized on the sale, exchange or retirement of the Notes by a Non-U.S. Holder will not be subject to U.S. federal income or withholding tax, unless (i) such income is effectively connected with a trade or business conducted by such Non U.S. Holder in the United States or (ii) in the case of gain, such Non-U.S. Holder is a nonresident alien individual who holds the Notes as a capital asset and is present in the United States for more than 182 days in the taxable year of the sale and certain other conditions are satisfied.

U.S. Federal Tax Treatment of U.S. Holders of Preference Shares

The Issuer intends to take the position that the Preference Shares constitute equity interests in the Issuer for U.S. federal, state and local income and franchise tax purposes, and the balance of this summary assumes that the Preference Shares are so treated.

Investment in a Passive Foreign Investment Company. The Issuer will constitute a “passive foreign investment company” (a “PFIC”) for U.S. federal income tax purposes, and U.S. Holders of the Preference Shares (other than certain U.S. Holders that are subject to the rules pertaining to a CFC, described below) will be considered shareholders in a PFIC. U.S. Holders may desire to make an election to treat the Issuer as a “qualified electing fund” (a “QEF”) with respect to such U.S. Holder. Generally, a U.S. Holder makes a QEF election on IRS Form 8621, attaching a copy of such form to its U.S. federal income tax return for the first taxable year for which it held its Preference Shares. If a U.S. Holder makes a timely QEF election with respect to the Issuer, the electing U.S. Holder will be required in each taxable year to include in gross income (i) as ordinary income, such U.S. Holder’s *pro rata* share of the Issuer’s ordinary earnings and (ii) as long term capital gain, such U.S. Holder’s *pro rata* share of the Issuer’s net capital gain, whether or not distributed. A U.S. Holder will not be eligible for the dividends received deduction in respect of such income or gain. In addition, any losses of the Issuer in a taxable year will not be available to such U.S. Holder and may not be carried back or forward in computing the Issuer’s ordinary earnings and net capital gain in other taxable years. If applicable, the rules pertaining to a CFC, discussed below, generally override those pertaining to a PFIC with respect to which a QEF election is in effect.

In certain cases in which a QEF does not distribute all of its earnings in a taxable year, the electing U.S. Holder may also be permitted to elect to defer payment of some or all of the taxes on the QEF’s income, subject to a nondeductible interest charge on the deferred amount. In this respect, prospective purchasers of Preference Shares should be aware that it is expected that the Collateral Debt Securities will include high yield debt obligations and such instruments may have substantial OID, the cash payment of which may be deferred, perhaps for a substantial period of time. In addition, the Issuer may use proceeds from the sale of Collateral Debt Securities to purchase substitute Collateral Debt Securities or to retire other classes of Notes. As a result, in any given year, the Issuer may have substantial amounts of earnings for U.S. federal income tax purposes that are not distributed on the Preference Shares. Thus, absent an election to defer payment of taxes, U.S. Holders that make a QEF election with respect to the Issuer may owe tax on significant “phantom” income.

The Issuer will provide, upon request, all information and documentation that a U.S. Holder making a QEF election with respect to the Issuer is required to obtain for U.S. federal income tax purposes. The Issuer may invest in the equity of other PFICs. In such event, a U.S. holder of Preference Shares must make a separate QEF election with respect to any such other PFIC and the Issuer will provide, to the extent it receives, the information needed for U.S. holders of Preference Shares to make such a QEF election. Moreover, if the U.S. Holder has made a QEF election with respect to such other PFIC, the U.S. Holder would be required to include in income the U.S. Holder’s *pro rata* share of the indirectly-owned PFIC’s ordinary earnings and net capital gain as if the indirectly-owned PFIC were owned directly, and the U.S. Holder would not be permitted to use any losses or other expenses of the Issuer to offset such ordinary earnings and/or net capital gains. Accordingly, if any of the Collateral Debt Securities are treated as equity interests in a PFIC, U.S. Holders could experience significant amounts of phantom income with respect to such interests. U.S. holders of Preference Shares should consult with their own tax advisers with respect to the tax consequences of such a situation.

A U.S. Holder of a Preference Share (other than certain U.S. Holders that are subject to the rules pertaining to a CFC, described below) that does not make a timely QEF election will be required to report any gain on the disposition of any Preference Shares as ordinary income, rather than capital gain, and to compute the tax liability on such gain and any “Excess Distribution” (as defined below) received in respect of the Preference Shares as if such items had been earned ratably over each day in the U.S. Holder’s holding period (or a certain portion thereof) for the Preference Shares. An “Excess Distribution” is the amount by which distributions during a taxable year in respect of a Preference Share exceed 125% of the average amount of distributions in respect thereof during the three preceding taxable years (or, if shorter, the U.S. Holder’s holding period for the Preference Share). The U.S. Holder will be subject to tax on such items at the highest ordinary income tax rate for each taxable year, other than the current year, in which the items were treated as having been earned, regardless of the rate otherwise applicable to the U.S. Holder. Further, such U.S. Holder will also be liable for a nondeductible interest charge as if such income tax liabilities had been due with respect to each such prior year. For purposes of these rules, gifts, exchanges pursuant to corporate reorganizations and use of the Preference Shares as security for a loan may be treated as a taxable disposition of such Preference Shares. In addition, a stepped up basis in the Preference Shares will not be available upon the death of an individual U.S. Holder.

In many cases, the U.S. federal income tax on any gain on disposition or receipt of Excess Distributions is likely to be substantially greater than the tax if a timely QEF election is made. **A U.S. HOLDER OF A PREFERENCE SHARE SHOULD CONSIDER CAREFULLY WHETHER TO MAKE A QEF ELECTION WITH RESPECT TO SUCH PREFERENCE SHARE.**

Investment in a Controlled Foreign Corporation. The Issuer will constitute a “controlled foreign corporation” (a “CFC”) if more than 50% of the equity interests in the Issuer, measured by reference to combined voting power or value, is owned directly, indirectly, or constructively by “United States shareholders.” For this purpose, a United States shareholder is any United States person that possesses directly, indirectly, or constructively 10% or more of the combined voting power of all classes of equity in the Issuer. It is likely that the Preference Share will be treated as voting securities. In this case, a U.S. Holder of Preference Shares possessing directly, indirectly, or constructively 10% or more of the sum of the Aggregate Outstanding Amount of the voting Preference Shares of the Issuer would be treated as a United States shareholder. If more than 50% of the Preference Shares of the Issuer, determined with respect to aggregate value or Aggregate Outstanding Amount, are owned directly, indirectly, or constructively by such United States shareholders, the Issuer would be treated as a CFC.

If, for any given taxable year, the Issuer is treated as a CFC, a United States shareholder of the Issuer would be required to include as ordinary income an amount equal to that person’s *pro rata* share of the Issuer’s “subpart F income” at the end of such taxable year. Among other items, and subject to certain exceptions, “subpart F income” includes dividends, interest, annuities, gains from the sale of shares and securities, certain gains from commodities transactions, certain types of insurance income and income from certain transactions with related parties. It is likely that, if the Issuer were to constitute a CFC, all or most of its income would be subpart F income.

If the Issuer is treated as a CFC and a U.S. Holder is treated as a United States shareholder of the Issuer, the Issuer would not be treated as a PFIC with respect to such U.S. Holder for the period during which the Issuer remains a CFC and such U.S. Holder remains a United States shareholder of the Issuer (the “qualified portion” of the U.S. Holder’s holding period for the Preference Shares). As a result, to the extent the Issuer’s subpart F income includes net capital gains, such gains would be treated as ordinary income to the United States shareholder under the CFC rules, notwithstanding the fact that the character of such gains generally would otherwise be preserved under the QEF rules. If the qualified portion of such U.S. Holder’s holding period for the Preference Shares subsequently ceases (either because the Issuer ceases to be a CFC or the U.S. Holder ceases to be a United States shareholder), then solely for purposes of the PFIC rules, such U.S. Holder’s holding period for the Preference Shares would be treated as beginning on the first day following the end of such qualified portion, unless the U.S. Holder had owned any Preference Shares for any period of time prior to such qualified portion and had not made a QEF election with respect to the Issuer. In that case, the Issuer would again be treated as a PFIC which is not a QEF with respect to such U.S. Holder and the beginning of such U.S. Holder’s holding period for the Preference Shares would continue to be the date upon which such U.S. Holder acquired the Preference Shares, unless the U.S. Holder makes an election to recognize gain with respect to the Preference Shares and a QEF election with respect to the Issuer.

Indirect Interests in PFICs and CFCs. The Issuer intends to purchase only Collateral Debt Securities that are treated by their issuers as indebtedness for U.S. federal income tax purposes. However, the treatment of certain of the Collateral Debt Securities purchased by the Issuer as indebtedness is uncertain. If the Issuer owns a Collateral Debt Security issued by a non-U.S. corporation that is treated as equity for U.S. federal income tax purposes, U.S. Holders of Preference Shares and any Note that is treated as equity in the Issuer could be treated as owning an indirect equity interest in a PFIC or a CFC and could be subject to certain adverse tax consequences.

In particular, a U.S. Holder of an indirect equity interest in a PFIC is treated as owning the PFIC directly. The U.S. Holder, and not the Issuer, would be required to make a QEF election with respect to each indirect interest in a PFIC. However, certain PFIC information statements are necessary for U.S. Holders that have made QEF elections, and there can be no assurance that the Issuer can obtain such statements from a PFIC, and thus there can be no assurance that a U.S. Holder will be able to make the election with respect to any indirectly-held PFIC. Accordingly, if the U.S. Holder has not made a QEF election with respect to the indirectly-held PFIC, the U.S. Holder would be subject to the adverse consequences described above under “--Investment in a Passive Foreign Investment Company” with respect to any excess inclusions of such indirectly-held PFIC, any gain indirectly realized by such U.S. Holder on the sale by the Issuer of such PFIC, and any gain indirectly realized by such U.S. Holder on the sale by the U.S. Holder of its Preference Shares or Notes (which may arise even if the U.S. Holder realizes a loss on such sale). Moreover, if the U.S. Holder has made a QEF election with respect to the

indirectly-held PFIC, the U.S. Holder would be required to include in income the U.S. Holder's pro rata share of the indirectly-owned PFIC's ordinary earnings and net capital gain as if the indirectly-owned PFIC were owned directly, and the U.S. Holder would not be permitted to use any losses or other expenses of the Issuer to offset such ordinary earnings and/or net capital gains.

Accordingly, if any of the Collateral Debt Securities are treated as equity interests in a PFIC, U.S. Holders could experience significant amounts of phantom income with respect to such interests. Other adverse tax consequences may arise for U.S. Holders that are treated as owning indirect interests in CFCs. U.S. Holders should consult their own tax advisors regarding the tax issues associated with such investments in light of their own individual circumstances.

Distributions on Preference Shares. The treatment of actual distributions of cash on the Preference Shares, in very general terms, will vary depending on whether a U.S. Holder has made a timely QEF election (as described above). See “—Investment in a Passive Foreign Investment Company.” If a timely QEF election has been made, distributions should be allocated first to amounts previously taxed pursuant to the QEF election (or pursuant to the CFC rules, if applicable) and to this extent will not be taxable to U.S. Holders. Distributions in excess of such previously taxed amounts will be taxable to U.S. Holders as ordinary income upon receipt, to the extent of any remaining amounts of untaxed current and accumulated earnings and profits of the Issuer. Distributions in excess of previously taxed amounts and any remaining current and accumulated earnings and profits of the Issuer will be treated first as a nontaxable return of capital and then as capital gain.

In the event that a U.S. Holder does not make a timely QEF election then, except to the extent that distributions may be attributable to amounts previously taxed pursuant to the CFC rules, some or all of any distributions with respect to the Preference Shares may constitute Excess Distributions, taxable as previously described. See “—Investment in a Passive Foreign Investment Company.”

Sale, Redemption, or other Disposition of Preference Shares. In general, a U.S. Holder of a Preference Share will recognize gain or loss upon the sale, redemption, or other disposition of a Preference Share equal to the difference between the amount realized and such U.S. Holder's adjusted tax basis in the Preference Share. Initially, a U.S. Holder's tax basis for a Preference Share will equal the amount paid for the Preference Share. Such basis will be increased by amounts taxable to such U.S. Holder by reason of a QEF election, or by reason of the CFC rules, as applicable, and decreased by actual distributions from the Issuer that are deemed to consist of such previously taxed amounts or are treated as a nontaxable reduction to the U.S. Holder's tax basis for the Preference Share (as described above). Except as discussed below, such gain or loss will be long term capital gain or loss if the U.S. Holder held the Preference Share for more than one year at the time of the disposition. In certain circumstances, U.S. Holders who are individuals (or whose income is taxable to U.S. individuals) may be entitled to preferential treatment for net long term capital gains; however, the ability of U.S. Holders to offset capital losses against ordinary income is limited.

If a U.S. Holder does not make a timely QEF election as described above, any gain realized on the sale, redemption, or other disposition of a Preference Share (or any gain deemed to accrue prior to the time a non timely QEF election is made) will be taxed as ordinary income and subject to an additional tax reflecting a deemed interest charge 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 “United States shareholder” therein, then any gain realized by such U.S. Holder upon the disposition of a Preference Share, other than gain subject to the PFIC rules, if applicable, would be treated as ordinary income to the extent of the U.S. Holder's *pro rata* share of the Issuer's current and accumulated earnings and profits. In this regard, earnings and profits would not include any amounts previously taxed pursuant to a timely QEF election or pursuant to the CFC rules.

Phantom Income and Credit Default Swaps. As mentioned above, the Issuer may recognize taxable income and gain for U.S. federal income tax purposes that exceeds the distributions paid to U.S. Holders of the Preference Shares. Accordingly, U.S. Holders of Preference Shares that have made a QEF election, or are subject to tax under the CFC rules, could recognize and be required to pay tax on their *pro rata* portion of the Issuer's net taxable income, even if this income exceeds amounts received in any taxable year (i.e., U.S. Holders of the Preference Shares may be subject to tax on “phantom income”). Prospective investors in the Preference Shares should consult their tax advisors regarding phantom income with respect to the Preference Shares.

Under current U.S. federal income tax law, the appropriate tax accounting for Synthetic Securities in the form of credit default swaps is unclear. Prospective investors in the Preference Shares should consult their tax advisors regarding the timing or characterization of income tax gains and deductions in respect of such Synthetic Securities.

Transfer Reporting Requirements. A U.S. Holder (including a tax exempt entity) that purchases the Preference Shares for cash would be required to file an IRS Form 926 or similar form with the IRS, if (i) such person is treated as owning, directly or by attribution, immediately after the transfer at least 10% by vote or value of the Issuer or (ii) if the amount of cash transferred by such person (or any related person) to the Issuer during the 12 month period ending on the date of such transfer, exceeds U.S.\$100,000. In the event a U.S. holder fails to file any such required form, the U.S. holder could be subject to a penalty equal to 10% of the gross amount paid for the Preference Shares (or any Note that is treated as equity for U.S. federal income tax purposes) subject to a maximum penalty equal to U.S.\$100,000 (except in cases of intentional disregard).

A U.S. Holder that is treated as owning (actually or constructively) at least 10% by vote or value of the equity of the Issuer for U.S. federal income tax purposes may be required to file an information return on IRS Form 5471, and provide additional information regarding the Issuer annually on IRS Form 5471 if it is treated as owning (actually or constructively) more than 50% by vote or value of the equity of the Issuer for U.S. federal income tax purposes.

U.S. Holders should consult their tax advisors with respect to these or any other reporting requirements which may apply with respect to their acquisition or ownership of the Preference Shares.

U.S. Federal Tax Treatment of Tax Exempt U.S. Holders of Preference Shares

U.S. Holders that are tax exempt entities should not be subject to the tax on unrelated business taxable income in respect of the Preference Shares unless the Preference Shares constitute “debt financed property” (as defined in the Code) of that entity. Nevertheless, it is possible that a portion of any income in respect of the Preference Shares could be treated as “unrelated debt financed income” and subject to the tax on unrelated business taxable income.

U.S. Federal Tax Treatment of Non-U.S. Holders of Preference Shares

In general, payments on the Preference Shares to a Non-U.S. Holder and gain realized on the sale, exchange or retirement of the Preference Shares by a Non-U.S. Holder will not be subject to U.S. federal income or withholding tax, unless (i) such income is effectively connected with a trade or business conducted by such Non-U.S. Holder in the United States, or (ii) in the case of gain, such Non U.S. Holder is a nonresident alien individual who holds the Preference Shares as a capital asset and is present in the United States for more than 182 days in the taxable year of the sale and certain other conditions are satisfied.

Information Reporting and Backup Withholding

Under certain circumstances, the Code requires “information reporting” annually to the IRS and to each holder, and “backup withholding” with respect to certain payments made on or with respect to the Offered Securities. Backup withholding generally does 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 and has not been notified by the IRS that it is subject to backup withholding for failure to report interest and dividend payments. The application for exemption is available by providing a properly completed IRS Form W-9.

A Non-U.S. Holder that provides the applicable IRS Form W-8BEN or Form W-8IMY, 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 IRS reporting requirements and U.S. backup withholding.

The payment of the proceeds on the disposition of an Offered Security by a holder to or through the U.S. office of a broker generally will be subject to information reporting and backup withholding unless the holder either certifies its status as a Non-U.S. Holder under penalties of perjury on the applicable IRS Form W-8BEN or Form W-8IMY (as described above) or otherwise establishes an exemption. The payment of the proceeds on the disposition of an Offered Security by a Non-U.S. Holder to or through a non-U.S. office of a non-U.S. broker will not be subject to backup withholding or information reporting unless the non-U.S. broker is a “U.S. Related Person” (as defined below). 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” is (i) a “controlled foreign corporation” for U.S. federal income tax purposes, (ii) a foreign person 50% or more of whose gross income from all sources for the three-year period ending with the close of its taxable year preceding the payment (or for such part of the period that the broker has been in existence) is derived from activities that are effectively connected with the conduct of a U.S. trade or business, or (iii) a foreign partnership if at any time during its tax year one or more of its partners are United States persons who, in the aggregate, hold more than 50% of the income or capital interest of the partnership or if, at any time during its taxable year, the partnership is engaged in the conduct of a U.S. trade or business.

Backup withholding is not an additional tax and may be refunded (or credited against the holder’s U.S. federal income tax liability, if any), *provided* that certain required information is furnished. The information reporting requirements may apply regardless of whether withholding is required. Copies of the information returns reporting such interest and withholding also may be made available to the tax authorities in the country in which a Non-U.S. Holder is a resident under the provisions of an applicable income tax treaty or agreement.

THE PRECEDING DISCUSSION IS ONLY A SUMMARY OF CERTAIN OF THE TAX IMPLICATIONS OF AN INVESTMENT IN THE OFFERED 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 EACH SUCH INVESTOR’S PARTICULAR CIRCUMSTANCES.

CAYMAN ISLANDS TAX CONSIDERATIONS

The following is a discussion on certain Cayman Islands income tax consequences of an investment in the Offered Securities. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor’s particular circumstances, and does not consider tax consequences other than those arising under Cayman Islands law.

Under existing Cayman Islands laws:

1. Payments of interest and principal on the Notes and dividends and capital in respect of the Preference Shares will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of interest and principal or a dividend or capital to any holder of the Notes or Preference Shares, as the case may be, nor will gains derived from the disposal of the Notes or Preference Shares 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 no stamp duty is payable in respect of the issue or transfer of the Notes although duty may be payable if Notes are executed in or brought into the Cayman Islands; and
2. Certificates evidencing the Notes or the Preference Shares, in registered form, to which title is not transferable by delivery, should not attract Cayman Islands stamp duty. However, an instrument transferring title to a Note or an agreement to transfer Preference Shares, if brought to or executed in the Cayman Islands, would be subject to Cayman Islands stamp duty.

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: -

Volans Funding 2007-1, Ltd., the “Company”

(1) 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

(2) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:

- (i) on or in respect of the shares debentures or other obligations of the Company; or
- (ii) by way of the withholding in whole or in part of any relevant payment as defined in Section 6(3) of the Tax Concessions Law (1999 Revision).

These concessions shall be for a period of TWENTY years from 16th day of January 2007.

GOVERNOR IN CABINET”

The Cayman Islands does not have an income 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 OFFERED 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 EACH SUCH INVESTOR’S PARTICULAR CIRCUMSTANCES.

CERTAIN ERISA CONSIDERATIONS

The United States Employee Retirement Income Security Act of 1974, as amended (“ERISA”) imposes certain duties on persons who are fiduciaries of employee benefit plans (as defined in Section 3(3) of ERISA) that are 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 which are not subject to ERISA.

Any fiduciary of an ERISA Plan, of an entity whose underlying assets include assets of ERISA Plans by reason of an ERISA Plan’s investment in such entity, or of a governmental or church plan that is subject to fiduciary standards similar to those of ERISA (“plan fiduciary”), that proposes to cause such a plan or entity to purchase Offered Securities should determine whether, under the general fiduciary standards of ERISA or other applicable law, an investment in the Offered Securities is appropriate for such plan or entity. In determining whether a particular investment is appropriate for an ERISA Plan, U.S. Department of Labor regulations provide that the fiduciaries of an ERISA Plan must give appropriate consideration to, among other things, the role that the investment plays in the ERISA Plan’s portfolio, taking into consideration whether the investment is designed reasonably to further the ERISA Plan’s purposes, an examination of the risk and return factors, the portfolio’s composition with regard to diversification, the liquidity and current return of the total portfolio relative to the anticipated cash flow needs of the ERISA Plan and the projected return of the total portfolio relative to the ERISA Plan’s funding objectives. Before investing the assets of an ERISA Plan in Offered Securities, a fiduciary should determine whether such an investment is consistent with the foregoing regulations and its fiduciary responsibilities, including any specific restrictions to which such fiduciary may be subject.

Section 406(a) of ERISA and Section 4975 of the Code prohibit certain transactions (“prohibited transactions”) involving the assets of ERISA Plans or plans described in Section 4975(e)(1) of the Code that are subject to Section 4975 of the Code (together with ERISA Plans, “Plans”) and certain persons (referred to as “Parties-In-Interest” in ERISA and as “Disqualified Persons” in Section 4975 of the Code) having certain relationships to such plans and entities. A Party-In-Interest or Disqualified Person who engages in a non-exempt prohibited transaction may be subject to non-deductible excise taxes and other penalties and liabilities under ERISA and/or the Code.

Each of the Issuer, the Co-Issuer, CALYON and the Collateral Manager as a result of their own activities or because of the activities of an Affiliate, may be considered a Party-In-Interest or a Disqualified Person with respect to Plans. Accordingly, prohibited transactions within the meaning of Section 406 of ERISA and Section 4975 of the Code may arise if Offered Securities are acquired by a Plan with respect to which any of the Issuer, the Co-Issuer, CALYON, the Collateral Manager, 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 Offered Securities by or on behalf of the Plan could be considered to constitute an indirect prohibited transaction. Moreover, the acquisition or holding of Offered Securities or other indebtedness issued by the Issuer or the Co-Issuer by or on behalf of a Party-In-Interest or Disqualified Person with respect to a Plan that owns or acquires a beneficial interest in the Issuer or the Co-Issuer, as the case may be, also could give rise to an indirect prohibited transaction. Certain exemptions from the prohibited transaction rules could be applicable, however, depending in part upon the type of Plan fiduciary making the decision to acquire an Offered Security and the circumstances under which such decision is made. Included among these exemptions are Department of Labor Prohibited Transaction Exemption (“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. In addition, the Pension Protection Act of 2006 provides a statutory exemption for prohibited transactions between an employee benefit plan or a plan and a person that is a party in interest (other than a fiduciary or an affiliate that has or exercises discretionary authority or control

or renders investment advice with respect to the assets involved in the transaction) solely by reason of providing services to the employee benefit plan or plan, *provided* that there is adequate consideration for the transaction. Even if the conditions specified in one or more of these exemptions are met, the scope of the relief provided by these exemptions might or might not cover all acts which might be construed as prohibited transactions. If a purchase of Offered Securities were to be a non-exempt prohibited transaction, the purchase might have to be rescinded.

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 or state or other federal laws that are similar to the foregoing provisions of ERISA and the Code (a “Similar Law”).

Any insurance company proposing to invest assets of its general account in the Offered Securities should consider the extent to which such investment would be subject to the requirements of ERISA in light of the United States Supreme Court’s decision in *John Hancock Mutual Life Insurance Co. v. Harris Trust and Savings Bank*, 510 U.S. 86 (1993), and the enactment of Section 401(c) of ERISA on August 20, 1996. In particular, such an insurance company should consider the retroactive and prospective exemptive relief granted by the United States Department of Labor for transactions involving insurance company general accounts in PTE 95-60, 60 Fed. Reg. 35925 (July 12, 1995), and the regulations issued by the Department of Labor; 29 C.F.R. Section 2550.401C-1 (January 5, 2000). Certain additional information regarding general accounts is set forth below.

The United States Department of Labor, the government agency primarily responsible for administering the ERISA fiduciary rules and the prohibited transaction rules under ERISA and the Code, has issued a regulation (the “Plan Asset Regulation”) that, under specified circumstances, requires plan fiduciaries, and entities with certain specified relationships to a Plan, to “look through” investment vehicles (such as the Issuer) and treat as an “asset” of the Plan each underlying investment made by such investment vehicle. The Plan Asset Regulation provides, however, that if equity participation in any entity by “Benefit Plan Investors” is not significant then the “look-through” rule will not apply to such entity. “Benefit Plan Investors” are defined in the Plan Asset Regulation, as modified by Section 3(42) of ERISA, to include (1) any employee benefit plan (as defined in Section 3(3) of ERISA) that is subject to Title I of ERISA, (2) any plan described in Section 4975(e)(1) of the Code that is subject to Section 4975 of the Code, and (3) any entity whose underlying assets include plan assets by reason of an employee benefit plan’s or plan’s investment in the entity. Equity participation by Benefit Plan Investors in an entity is significant if, immediately after the most recent acquisition of any equity interests in the entity, 25% or more of the value of any class of equity interests in the entity (excluding the value of any interests held by certain persons, other than Benefit Plan Investors, exercising control over the assets of the entity or providing investment advice with respect to such assets for a fee, direct or indirect (such as the Collateral Manager), or any Affiliates (within the meaning of the Plan Asset Regulation) of such persons (any such person, a “Controlling Person”)) is held by Benefit Plan Investors (the “25% Threshold”).

There is little pertinent authority in this area. However, it is not anticipated that the Class A-2 Notes, Class B Notes, Class C Notes and Class D Notes will constitute “equity interests” in the Co-Issuers. No measures (such as those described below with respect to the Preference Shares) will be taken to restrict investment in the Offered Notes by Benefit Plan Investors.

Although not offered hereby, and although issued in the form of debt, given the subordination level and other terms, it is likely that the Class F Notes will be treated as equity for the purposes of the Plan Asset Regulation. Accordingly, Plans and other entities which are deemed to hold the assets of any such Plans pursuant to the Plan Asset Regulation are prohibited from acquiring the Class F Notes.

It is intended that the ownership interests in the Preference Shares will be limited to the 25% Threshold by requiring each purchaser or transferee of a Preference Share to make certain representations and agree to additional transfer restrictions described under “Transfer Restrictions.” No purchase of a Preference Share by or proposed transfer to a Person that has represented that it is a Benefit Plan Investor or a Controlling Person will be permitted to the extent that such purchase or transfer would result in Persons that have represented that they are Benefit Plan Investors owning 25% or more of the outstanding Preference Shares immediately after such purchase or proposed transfer (determined in accordance with the Plan Asset Regulation and the Preference Shares Paying Agency Agreement and after excluding any Preference Shares held by Controlling Persons), based upon the assurances received from investors. In addition, the Initial Purchasers, the Collateral Manager, the Trustee and any other Controlling Person will be prohibited from acquiring any Preference Shares if such acquisition would result in

Benefit Plan Investors that have acquired Preference Shares owning 25% or more of the outstanding Preference Shares (determined after excluding Preference Shares held by Controlling Persons). Preference Shares held by a Benefit Plan Investor or Controlling Person must be held in the form of Restricted Preference Shares. Any Person acquiring Preference Shares in the form of Regulation S Preference Shares will be deemed to represent that it is neither a Benefit Plan Investor nor a Controlling Person. Any Benefit Plan Investor that acquires Preference Shares will be required to represent and agree that the acquisition and holding of such Preference Shares does not and will not constitute a prohibited transaction under ERISA or Section 4975 of the Code for which an exemption is not available.

The U.S. Supreme Court, in *John Hancock* (noted above), held that those funds allocated to the general account of an insurance company pursuant to a contract with an employee benefit plan that vary with the investment experience of the insurance company are “plan assets.” In the preamble to PTE 95-60 (also noted above), the Department of Labor noted that, for purposes of calculating the 25% Threshold under the significant participation test of the Plan Asset Regulation, only the proportion of an insurance company general account’s equity investment in the entity that represents plan assets should be taken into account in calculating that portion of the general account that is a Benefit Plan Investor. Any insurance company using general account assets to purchase Preference Shares will be asked (i) to identify the maximum percentage of the assets of the general account that are or may become “plan assets,” (ii) whether it is a “Controlling Person”, and (iii) without limiting the remedies that may be available in the event that the maximum percentage is thereafter exceeded, to agree to notify the Issuer, and dispose of its Preference Shares, if so instructed by the Issuer, before the specified maximum percentage is exceeded. Any insurance company general account the assets of which are (or are deemed to be) plan assets must hold Preference Shares in the form of Restricted Preference Shares.

If the Issuer determines that any holder of a Regulation S Preference Share or an interest therein is a Benefit Plan Investor or a Controlling Person, the Issuer may require, by notice to such holder that such holder sell all of its right, title and interest to such Preference Share, (or interest therein) to a person that is not a Benefit Plan Investor or a Controlling Person and otherwise satisfies the applicable requirements for holding such Preference Share, with such sale to be effected within 30 days after notice of such sale requirement is given. If such holder fails to effect the transfer required within such 30-day period, (x) upon written direction from the Issuer, the Preference Share Paying Agent or the Trustee will, and is hereby irrevocably authorized by such holder to, cause such holder’s interest in this security to be transferred in a commercially reasonable sale (conducted by the Preference Share Paying Agent or the Trustee in accordance with section 9-610 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 are the subject of widely distributed standard price quotations) to a person that certifies to the Preference Share Paying Agent or the Trustee, as applicable, the Issuer and the Collateral Manager, in connection with such transfer, that such person is not a Benefit Plan Investor or a Controlling Person and otherwise meets the requirements for holding such Preference Share and (y) pending such transfer, no further payments will be made in respect of the interest in such Preference Share held by such holder, and the interest in such Preference Share will not be deemed to be outstanding for the purpose of any vote or consent of the holders of the Preference Shares.

If for any reason the assets of the Issuer are deemed to be “plan assets” of a Plan because one or more such Plans is an owner of Preference Shares, certain transactions that either of the Co-Issuers might enter into, or may have entered into, in the ordinary course of its business might constitute non-exempt “prohibited transactions” under Section 406 of ERISA or Section 4975 of the Code and might have to be rescinded. In addition, if the assets of the Issuer are deemed to be “plan assets” of a Plan, the payment of certain of the fees to the Collateral Manager might be considered to be a non-exempt “prohibited transaction” under Section 406 of ERISA or Section 4975 of the Code. Moreover, if the underlying assets of the Issuer were deemed to be assets constituting “plan assets”, (i) the assets of the Issuer could be subject to ERISA’s reporting and disclosure requirements, (ii) a fiduciary causing a Benefit Plan Investor to make an investment in the equity of the Issuer could be deemed to have delegated its responsibility to manage the assets of the Benefit Plan Investor, (iii) various providers of fiduciary or other services to the Issuer, and any other parties with authority or control with respect to the Issuer, could be deemed to be plan fiduciaries or otherwise Parties in Interest or Disqualified Persons by virtue of their provision of such services and (iv) it is not clear that Section 404(b) of ERISA, which generally prohibits plan fiduciaries from maintaining the indicia of ownership of assets of plans subject to Title I of ERISA outside the jurisdiction of the district courts of the United States, would be satisfied in all instances.

The sale of any Offered Security to a Plan is in no respect a representation by the Issuer, CALYON, 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 AN OFFERED NOTE OR AN INTEREST THEREIN WILL BE REQUIRED TO CERTIFY (OR IN CERTAIN CIRCUMSTANCES DEEMED TO REPRESENT AND WARRANT) EITHER THAT (A) IT IS NOT (AND FOR SO LONG AS IT HOLDS SUCH NOTE OR ANY INTEREST THEREIN WILL NOT BE), AND IS NOT (AND FOR SO LONG AS IT HOLDS SUCH NOTE OR INTEREST THEREIN WILL NOT BE) ACTING ON BEHALF OF AN “EMPLOYEE BENEFIT PLAN” AS DEFINED IN SECTION 3(3) OF ERISA THAT IS SUBJECT TO TITLE I OF ERISA, A PLAN DESCRIBED IN SECTION 4975(e)(1) OF THE CODE THAT IS SUBJECT TO SECTION 4975 OF THE CODE, AN ENTITY WHICH IS DEEMED TO HOLD THE ASSETS OF ANY SUCH EMPLOYEE BENEFIT PLAN OR PLAN PURSUANT TO 29 C.F.R. SECTION 2510.3-101 OR OTHERWISE, OR A GOVERNMENTAL OR CHURCH PLAN WHICH IS SUBJECT TO ANY FEDERAL, STATE OR LOCAL LAW THAT IS SIMILAR TO THE PROHIBITED TRANSACTION PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (“SIMILAR LAW”), OR (B) ITS PURCHASE AND OWNERSHIP OF SUCH NOTE WILL NOT CONSTITUTE OR RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF A GOVERNMENTAL OR CHURCH PLAN, WILL NOT RESULT IN A NON-EXEMPT VIOLATION OF ANY SUCH SIMILAR LAW).

EACH INITIAL INVESTOR IN, AND EACH SUBSEQUENT TRANSFEREE OF, A RESTRICTED PREFERENCE SHARE WILL BE REQUIRED TO REPRESENT AND WARRANT THAT EITHER (A) IT IS NOT AN “EMPLOYEE BENEFIT PLAN” WITHIN THE MEANING OF SECTION 3(3) OF ERISA THAT IS SUBJECT TO TITLE I OF ERISA, ANY “PLAN” DESCRIBED IN SECTION 4975(e)(1) OF THE CODE THAT IS SUBJECT TO SECTION 4975 OF THE CODE, OR ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE “PLAN ASSETS” OF ANY OF THE FOREGOING BY REASON OF AN EMPLOYEE BENEFIT PLAN’S INVESTMENT OR PLAN’S INVESTMENT IN SUCH ENTITY (EACH, A “BENEFIT PLAN INVESTOR”) OR (B) IF IT IS A BENEFIT PLAN INVESTOR, THE ACQUISITION AND HOLDING OF A RESTRICTED PREFERENCE SHARE WILL NOT CONSTITUTE A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF A GOVERNMENTAL PLAN THAT IS SUBJECT TO ANY SUBSTANTIALLY SIMILAR FEDERAL, STATE OR LOCAL LAW, UNDER SUCH SUBSTANTIALLY SIMILAR FEDERAL, STATE OR LOCAL LAW). IN ADDITION, EACH PURCHASER OF A RESTRICTED PREFERENCE SHARE WILL BE REQUIRED TO REPRESENT AND WARRANT AS TO WHETHER OR NOT IT IS A CONTROLLING PERSON.

EACH INSURANCE COMPANY PURCHASING RESTRICTED PREFERENCE SHARES WITH THE ASSETS OF AN INSURANCE COMPANY GENERAL ACCOUNT WILL BE REQUIRED TO REPRESENT AND WARRANT THE MAXIMUM PERCENTAGE OF SUCH GENERAL ACCOUNT THAT REPRESENTS (AND WILL REPRESENT AS LONG AS IT OWNS ANY INTEREST IN THE PREFERRED SHARES) OWNERSHIP BY BENEFIT PLAN INVESTORS.

EACH INITIAL INVESTOR IN, AND TRANSFEREE OF, AN INTEREST IN A REGULATION S GLOBAL PREFERENCE SHARE WILL BE REQUIRED TO REPRESENT, WARRANT AND COVENANT THAT IT IS NOT A BENEFIT PLAN INVESTOR OR A CONTROLLING PERSON.

EACH INITIAL INVESTOR IN, AND EACH SUBSEQUENT TRANSFEREE OF, A PREFERENCE SHARE OR ANY INTEREST THEREIN ACKNOWLEDGES THAT NO PURCHASE OF A PREFERENCE SHARE WILL BE PERMITTED, AND NONE OF THE ISSUER, THE TRUSTEE OR THE PREFERENCE SHARES PAYING AGENT WILL REGISTER ANY SUCH TRANSFER, TO THE EXTENT THAT SUCH TRANSFER WOULD RESULT IN BENEFIT PLAN INVESTORS OWNING 25% OR MORE OF THE AGGREGATE OUTSTANDING AMOUNT OF THE PREFERENCE SHARES (EXCLUDING ANY PREFERENCE SHARES HELD BY CONTROLLING PERSONS) IMMEDIATELY AFTER SUCH TRANSFER. EACH INITIAL INVESTOR IN, AND EACH SUBSEQUENT TRANSFEREE OF, A PREFERENCE SHARE OR ANY INTEREST THEREIN FURTHER ACKNOWLEDGES THAT THE FOREGOING PROCEDURES ARE INTENDED TO ENABLE THE PREFERENCE SHARES TO BE PURCHASED BY OR TRANSFERRED TO BENEFIT PLAN INVESTORS AT ANY TIME, ALTHOUGH NO ASSURANCE CAN BE GIVEN THAT

THERE WILL NOT BE CIRCUMSTANCES IN WHICH TRANSFERS OF PREFERENCE SHARES WILL BE REQUIRED TO BE RESTRICTED IN ORDER TO COMPLY WITH THE AFOREMENTIONED 25% LIMITATION.

ANY PLAN FIDUCIARY THAT PROPOSES TO CAUSE A PLAN TO PURCHASE OFFERED SECURITIES SHOULD CONSULT WITH ITS OWN LEGAL AND TAX ADVISORS WITH RESPECT TO THE POTENTIAL APPLICABILITY OF ERISA AND THE CODE TO SUCH INVESTMENTS, THE CONSEQUENCES OF SUCH AN INVESTMENT UNDER ERISA AND THE CODE AND THE ABILITY TO MAKE THE REPRESENTATIONS DESCRIBED ABOVE. MOREOVER, EACH PLAN FIDUCIARY SHOULD DETERMINE WHETHER, UNDER THE GENERAL FIDUCIARY STANDARDS OF ERISA, AN INVESTMENT IN THE OFFERED SECURITIES IS APPROPRIATE FOR THE PLAN, TAKING INTO ACCOUNT THE OVERALL INVESTMENT POLICY OF THE PLAN AND THE COMPOSITION OF THE PLAN'S INVESTMENT PORTFOLIO.

The discussion of ERISA and Section 4975 of the Code contained in this Offering Memorandum, 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

General. The Offered Securities are being offered by CALYON Corporate and Investment Bank, which is the marketing name of CALYON, a French banking corporation, and Calyon Securities (USA) Inc., a New York corporation (each, an “Initial Purchaser” and collectively, the “Initial Purchasers”) to prospective purchasers from time to time in negotiated transactions at varying prices to be determined in each case at the time of sale, within the United States to qualified purchasers (for purposes of Section 3(c)(7) of the Investment Company Act) that are also qualified institutional buyers (as defined in Rule 144A under the Securities Act) in reliance on Rule 144A or, in the case of the Class E Notes, Class F Notes and the Preference Shares, Institutional Accredited Investors and outside the United States to prospective purchasers who are not U.S. Persons (as defined in Regulation S) in offshore transactions exempt from the registration requirements of the Securities Act under Regulation S. References to CALYON in its capacity as an Initial Purchaser in this Offering Memorandum means the following in the following locations: (i) if the investor is located in the United States of America, Calyon Securities (USA) Inc., (ii) if the investor is located in Europe, CALYON, or any of its affiliates and (iii) if the investor is located in a jurisdiction other than as set out in (i) and (ii) above, CALYON or its local affiliate.

The Initial Purchasers and the Issuer will enter into a Securities Purchase Agreement on or before the Closing Date (the “Securities Purchase Agreement”), which will provide that the obligations of the Initial Purchasers to purchase the Offered Securities are subject to approval of legal matters by counsel and to other conditions.

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 (as defined in Regulation S) except in transactions exempt from, or not subject to, the registration requirements of the Securities Act.

Accordingly, in connection with sales outside the United States, the Initial Purchasers have agreed that, except as permitted by the Securities Purchase Agreement, they will not offer or sell the Offered Securities within the United States or to, or for the account or benefit of, U.S. persons (i) as part of its distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, and it will have sent to each dealer to which it sells Offered Securities during the 40 day restricted period a confirmation or other notice setting forth the restrictions on offers and sales of the Offered Securities within the United States or to, or for the account or benefit of, U.S. persons. In addition, until 40 days after the commencement of this offering, an offer or sale of Offered Securities within the United States by a dealer that is not participating in this offering may violate the registration requirements of the Securities Act if that offer or sale is made otherwise than in accordance with Rule 144A.

Each of the Initial Purchasers will represent and warrant in the Securities Purchase Agreement that (1) it has not offered or sold and, prior to the expiry of a period of six months from the Closing Date, will not offer or sell any Securities to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995; (2) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000) received by it in connection with the issue or sale of any Securities in circumstances in which Section 21(1) of said Act would not, if each of the Co-Issuers were not an authorized person, apply to the Co-Issuers; and (3) it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 with respect to anything done by it in relation to the Securities in, from or otherwise involving the United Kingdom.

The Co-Issuers have agreed to indemnify the Initial Purchasers against certain liabilities, including liabilities under the Securities Act, and have agreed to contribute to payments that the Initial Purchasers may be required to make in respect thereof.

The Offered Securities are offered when, as and if issued, subject to prior sale or withdrawal, cancellation or modification of the offer without notice and subject to approval of certain legal matters by counsel and certain other conditions.

The Initial Purchasers may be contacted c/o Calyon Securities (USA) Inc., at 1301 Avenue of the Americas, New York, New York 10019, Attention: Credit Markets & CDOs.

SETTLEMENT AND CLEARING

Global Securities

Investors may hold their interests in a Regulation S Global Security directly through Euroclear or Clearstream, Luxembourg, if they are Participants in such systems, or indirectly through organizations which are Participants in such systems. Euroclear and Clearstream, Luxembourg will hold interests in Regulation S Global Securities 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 Global Security 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 which are Participants in such system.

So long as the depository for a Global Security, or its nominee, is the registered holder of such Global Security, such depository or such nominee, as the case may be, will be considered the absolute owner or holder of such Global Security for all purposes under the Indenture and 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 related Global Security, the Indenture or the Preference Share Paying Agency Agreement. Owners of beneficial interests in a Global Security will not be considered to be the owners or holders of the related Offered Security, any Note under the Indenture or any Preference Share under the Preference Share Paying Agency Agreement. In addition, no beneficial owner of an interest in a Global Security 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 Security) Euroclear or Clearstream, Luxembourg (in addition to those under the Indenture or the or the Preference Share Paying Agency Agreement (as the case may be)), in each case to the extent applicable (the "Applicable Procedures").

Payments or Distributions on a Global Security

Payments or distributions on an individual Global Security (as the case may be) 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 Security. None of the Issuer, the Trustee, the Note Registrar, the Preference Share Paying Agent and 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 Securities or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

With respect to the Global Securities, the Issuer expects that the depository for any Global Security or its nominee, upon receipt of any payment or distribution on such Global Security (as the case may be), will immediately credit the accounts of Participants with payments in amounts proportionate to their respective beneficial interests in the principal amount of such Global Security as shown on the records of the depository or its nominee. The Issuer also expects that payments by Participants to owners of beneficial interests in such Global Securities 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.

Transfers and Exchanges for Definitive Securities

Interests in a Global Security will be exchangeable or transferable, as the case may be, for a Definitive Security if (a) DTC notifies the Issuer that it is unwilling or unable to continue as depository for such Offered 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 such Global Security is required by law to take physical delivery of securities in definitive form, (d) in the case of a Global Note, there is an Event of Default under the Notes or (e) the transferee is otherwise unable to pledge its interest in a Global Security. 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 Security 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 Security be exchanged for a Definitive Security.

Upon the occurrence of any of the events described in the preceding sentence, the Issuer will cause Definitive Securities bearing an appropriate legend regarding restrictions on transfer to be delivered. The Trustee will not execute and deliver a Definitive Security without the specified legend, unless there is delivered to the Issuer and the Trustee such satisfactory evidence, which may include an opinion of U.S. counsel, as may reasonably be required by the Issuer or the Trustee that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act or the Investment Company Act. Definitive Securities will be exchangeable or transferable for interests in other Definitive Securities as described herein. See “Form, Registration and Transfer”.

Cross-Border Transfers and Exchanges

Subject to compliance with the transfer restrictions applicable to the Offered Securities described 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 Security 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 depositories of Euroclear or Clearstream, Luxembourg.

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

DTC has advised the Co-Issuers that it will take any action permitted to be taken by a holder of the relevant Security (including, without limitation, the presentation of such Offered Security for exchange as described above) only at the direction of one or more Participants to whose account with DTC interests in the related Global Security are credited and only in respect of such portion of the aggregate principal amount of the Notes or the Preference Shares (as the case may be) as to which such Participant or Participants has or have given such direction.

DTC, Euroclear and Clearstream

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”).

The information herein concerning DTC, Clearstream and Euroclear and their book-entry systems has been obtained from sources believed to be reliable, but none of the Co-Issuers and the Initial Purchasers take any responsibility for the accuracy or completeness thereof.

Although DTC, Euroclear and Clearstream, Luxembourg have agreed to the foregoing procedures in order to facilitate transfers of interests in Global Securities among Participants of DTC, Euroclear and Clearstream,

Luxembourg, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Co-Issuer and the Trustee will have any responsibility for the performance by DTC, Euroclear or Clearstream, Luxembourg or their respective Participants or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of Offered Securities.

Representations by Purchasers

Each purchaser of a Note will be deemed to acknowledge, represent to and agree with the Co-Issuers and the Initial Purchasers and each purchaser of a Preference Share will be required in a Subscription Agreement to acknowledge, represent to and agree with the Issuer and the Initial Purchasers, as follows:

(1) *No Governmental Approval.* The purchaser understands that the Offered Securities have not been approved or disapproved by the SEC or any other governmental authority or agency of any jurisdiction and that neither the SEC nor any other governmental authority or agency has passed upon the accuracy or adequacy of this Offering Memorandum. The purchaser further understands that any representation to the contrary is a criminal offense.

(2) *Certification Upon Transfer.* If required by the Indenture or the Preference Share Paying Agency Agreement, the purchaser will, prior to any sale, pledge or other transfer by it of any Offered Security (or any interest therein), deliver to the Issuer, Trustee and the Note Registrar (or, in the case of a Preference Share, the Preference Share Paying Agent and Preference Share Registrar) duly executed transferor and transferee certifications in the form of the relevant exhibit attached to the Indenture or the Preference Share Paying Agency Agreement, as applicable, and such other certificates and other information as the Issuer or the Trustee (in the case of the Notes) or the Preference Share Paying Agent (in the case of the Preference Shares) may reasonably require to confirm that the proposed transfer complies with the transfer restrictions contained in the Offering Memorandum and in the Indenture or the Preference Share Paying Agency Agreement, as applicable.

(3) *Minimum Denomination.* The purchaser agrees that no Note or Preference Share (or any interest therein) may be sold, pledged or otherwise transferred in a denomination of less than the applicable minimum denomination of the Notes or minimum lots of the Preference Shares, as applicable, in each case, as set forth herein.

(4) *Securities Law Limitations on Resale.* The purchaser understands that the Offered Securities have not been registered under the Securities Act and, therefore, cannot be offered or sold in the United States or to U.S. Persons unless they are registered under the Securities Act or unless an exemption from registration is available and that the certificates representing the Offered Securities will bear a legend setting forth such restriction. The purchaser understands that neither the Issuer nor (in the case of the Notes) the Co-Issuer has any obligation to register the Offered Securities under the Securities Act or to comply with the requirements for any exemption from the registration requirements of the Securities Act (other than to supply information specified in Rule 144A(d)(4) of the Securities Act as required by the Indenture).

(5) *Status; Investment Intent.* In the case of a purchaser of a Restricted Global Note (or any interest therein), a Restricted Definitive Note or a Restricted Preference Share, it is a Qualified Institutional Buyer or, in the case of a Restricted Definitive Note or a Restricted Preference Share, an Institutional Accredited Investor, that is also a Qualified Purchaser and it is acquiring the Notes or Preference Shares 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 of a beneficial interest in a Regulation S Global Security, it is not a U.S. Person and is purchasing such interest for its own account and not for the account or benefit of a U.S. Person.

(6) *Purchaser Sophistication; Non-Reliance; Suitability; Access to Information.* The purchaser (a) has such knowledge and experience in financial and business matters that the purchaser is capable of evaluating the merits and risks (including for tax, legal, regulatory, accounting and other

financial purposes) of its prospective investment in Offered Securities, (b) is financially able to bear such risk, (c) in making such investment, is not relying on the advice or recommendations of the Initial Purchasers, the Issuer, the Co-Issuer, the Collateral Manager or any of their respective Affiliates (or any representative of any of the foregoing) and (d) has determined that an investment in Offered Securities is suitable and appropriate for it. The purchaser has received, and has reviewed the contents of, this Offering Memorandum. The purchaser has had access to such financial and other information concerning the Issuer and the Offered Securities as it has deemed necessary to make its own independent decision to purchase Offered Securities, as the case may be, including the opportunity, at a reasonable time prior to its purchase of Offered Securities, as the case may be, to ask questions and receive answers concerning the Issuer, the Co-Issuer and the terms and conditions of the offering of the Offered Securities.

(7) *Certain Resale Limitations.* The purchaser is aware that no Offered Security (nor any interest therein) may be offered or sold, pledged or otherwise transferred:

(a) in the United States or to a U.S. Person, except to a transferee (i) whom the seller reasonably believes is a Qualified Institutional Buyer purchasing for its own account, to whom notice is given that the resale, pledge or other transfer is being made in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A or, in the case of the Restricted Definitive Notes or the Restriction Preferences Shares, an Institutional Accredited Investor, and (ii) that is a Qualified Purchaser; or

(b) to a transferee acquiring an interest in a Regulation S Global Security or any Definitive Note or Definitive Preference Share issued in respect thereof, (any such Offered Security a “Regulation S Security”) except to a transferee that is not a U.S. Person and is acquiring such interest in an offshore transaction (within the meaning of Regulation S) in accordance with Rule 903 or Rule 904 of Regulation S.

In addition, (i) no Regulation S Preference Share may be transferred to a Benefit Plan Investor (including, for this purpose, the general account of an insurance company any of the underlying assets of which constitute “plan assets” under Section 401(c) of ERISA or a wholly-owned subsidiary thereof) or a Controlling Person and (ii) each transfer of an Offered Security must be made in compliance with the other requirements set forth in the Indenture and the Preference Share Paying Agency Agreement and in accordance with any other applicable securities laws of any relevant jurisdiction.

(8) *Limited Liquidity.* The purchaser understands that there is no market for the Offered Securities and that there can be no assurance that a secondary market for any of the Offered Securities will develop, or if a secondary market does develop, that it will provide the holders of such Offered Securities, as the case may be, with liquidity of investment or that it will continue for the life of the Offered Securities. It further understands that, although any of the Initial Purchasers and their respective Affiliates may from time to time make a market in one or more Classes of Notes or Preference Shares, none of the Initial Purchasers and their respective Affiliates is under any obligation to do so and, following the commencement of any market-making, may discontinue the same at any time. Accordingly, the purchaser must be prepared to hold its Offered Securities, as the case may be, for an indefinite period of time or until the Stated Maturity.

(9) *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”) (a) 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 (b) all pre-amendment beneficial owners of the outstanding securities (other than short-term paper) of any excepted investment company that, directly or indirectly, owns any outstanding securities of such entity, have consented to such entity’s treatment as a Qualified Purchaser in accordance with the Investment Company Act.

(10) *ERISA.* In the case of a purchaser of an Offered Note, either (a) it is not (and for so long as it holds any such Note or any interest therein will not be) and is not acting on behalf of (and for so long

as it holds any such Note or any interest therein will not be acting on behalf of) an employee benefit plan within the meaning of Section 3(3) of ERISA that is subject to Title I of ERISA, a plan described in Section 4975(e)(1) of the Code that is subject to Section 4975 of the Code, an entity which is deemed to hold the assets of any such employer benefit plan or plan pursuant to 29 C.F.R. Section 2510.3-101 or otherwise, or a governmental or church plan which is subject to any Similar Law, or (b) its purchase and ownership of such Offered Note will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of a governmental or church plan, will not result in a non-exempt violation of any Similar Law).

If the purchaser of Offered Notes is, or is acting on behalf of, an employee benefit plan subject to Title I of ERISA, a plan subject to Section 4975 of the Code or an employee benefit plan or plan that is not subject to Title I of ERISA or Section 4975 of the Code but is subject to provisions of a Similar Law, the fiduciaries of such plan or such employee benefit plan, as applicable, represent and warrant that they have been informed of and understand the Issuer's investment objectives, policies and strategies and that the decision to invest such plan's assets or such employee benefit plan's assets in such Notes was made with appropriate consideration of relevant investment factors with regard to such plan or such employee benefit plan, as the case may be, and is consistent with the duties and responsibilities imposed upon fiduciaries with regard to their investment decisions under Title I of ERISA, Section 4975 of the Code or such Similar Law.

In the case of a purchaser of a Preference Share:

(a) Is the purchaser, or is the purchaser acting on behalf of, a "benefit plan investor" as defined in U.S. Department of Labor Regulations Section 2510.3-101, as modified by Section 3(42) of ERISA (a "Benefit Plan Investor")?

☐ Yes ☐ No

A Benefit Plan Investor includes employee benefit plans and arrangements that are subject to Title I of ERISA or Section 4975 of the Code, as well as entities whose underlying assets include plan assets by reason of investment by such plans in such entities. Regulation S Global Preference Shares may not be acquired by Benefit Plan Investors.

(b) Is the purchaser a person (other than a Benefit Plan Investor) who has discretionary authority or control with respect to the assets of the Issuer or any person who provides investment advice for a fee (direct or indirect) with respect to such assets or any affiliate of such person (a "Controlling Person")?

☐ Yes ☐ No

For purposes of the foregoing, an "affiliate" of a person includes any person, directly or indirectly, through one or more intermediaries, controlling controlled by, or under common control with the person. "Control," with respect to a person other than an individual, means the power to exercise a controlling influence over the management or policies of such person. Regulation S Global Preference Shares may not be acquired by Controlling Persons.

(c) (i) Is the purchaser an insurance company general account?

☐ Yes ☐ No

(ii) If the answer to the question in (c)(i) above is "Yes", please provide the following information:

the maximum percentage of the assets of such insurance company general account that will represent "plan assets" within the meaning of 29 C.F.R. § 2510.3-101 (the "Plan Asset Regulation"), as modified by Section 3(42) of ERISA, at any time that the purchaser holds any interest in the Preference Shares is ____%.

(d) (i) Is the purchaser an entity, other than an insurance company general account, that holds plan assets (i.e., do Benefit Plan Investors own 25% or more of any class of equity interest in the entity.)?

☐ Yes ☐ No

(ii) If the answer to the question (d)(i) above is “Yes”, please provide the following information:

the maximum percentage of the assets of such entity that will represent “plan assets” within the meaning of the Plan Assets Regulation, as modified by Section 3(42) of ERISA, at any time that the purchaser holds any interest in the Preference Shares is ____%.

(e) The purchaser understands and agrees that the information supplied above will be utilized to determine whether Benefit Plan Investors own less than 25% of the Preference Shares of the Issuer (excluding holdings of Controlling Persons), both upon the original issuance of Preference Shares and upon subsequent transfers of Preference Shares for any reason. Accordingly, the purchaser undertakes:

(i) to inform the Issuer and the Trustee immediately of any change in the information provided in this paragraph, and

(ii) to provide to the Issuer and the Trustee such information as the Issuer or the Trustee may reasonably request from time to time to enable the Issuer and the Trustee to make a determination with respect to the portion of the Preference Shares of the Issuer that may be held by or for the benefit of Benefit Plan Investors.

The purchaser understands that the foregoing information will be relied upon by the Issuer for the purpose of determining the eligibility of the purchaser to purchase Preference Shares. The purchaser agrees to provide, if requested, any additional information that may be required to substantiate the purchaser’s status as a qualified purchaser under the exception provided pursuant to Section 3(c)(7) of the 1940 Act, to determine compliance with ERISA and/or Section 4975 of the Code or to otherwise determine its eligibility to purchase Preference Shares.

No Preference Share may be transferred to a transferee which is acquiring an interest in a Regulation S Global Preference Share unless such transferee is not a Benefit Plan Investor (including, for this purpose the general account of an insurance company any of the underlying assets of which constitute “plan assets” under Section 401(c) of ERISA or a wholly-owned subsidiary thereof) or a Controlling Person.

(11) *Limitations on Flow-Through Status.* In the case of a purchaser of a Restricted Security, it is (a) either not a Flow-Through Investment Vehicle or it is a Flow-Through Investment Vehicle that is a Qualifying Investment Vehicle and (b) if it is a Qualifying Investment Vehicle, (x) it has only one class of securities outstanding (other than any nominal share capital the distributions in respect of which are not correlated to or dependent upon distributions on, or the performance of, the Offered Securities) and (y) either (1) none of the beneficial owners of its securities is a U.S. Person or (2) 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 such owner is a Qualified Purchaser. A purchaser is a “Flow-Through Investment Vehicle” if: (i) in the case of a purchaser that would be an investment company but for the exception in Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act, the amount of the purchaser’s investment in the Offered Securities 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 an investment decision of the purchaser (other than a general partner or similar entity) or to determine on an investment-by-investment basis, the amount of such person’s contribution to any investment made by the purchaser, (iii) the purchaser was organized or reorganized for the specific purpose of acquiring any Offered Securities or (iv) additional capital or similar contributions were specifically solicited from any person owning an equity or similar interest in the purchaser for the purpose of enabling the purchaser to purchase Offered Securities. A “Qualifying Investment Vehicle” means 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 each of the representations set forth in this Offering Memorandum and/or the transfer certificate pursuant to which such Offered Securities were transferred to such entity (in each case, with appropriate modifications to reflect the indirect nature of the interests of such beneficial owners in the Offered Securities, as the case may be).

(12) *Certain Transfers Void.* The purchaser agrees that (a) any sale, pledge or other transfer of an Offered Security (or any interest therein) made in violation of the transfer restrictions contained in this Offering Memorandum and the Indenture or the Preference Share Paying Agency Agreement, as applicable, or made based upon any false or inaccurate representation made by the purchaser or a transferee to the Issuer, will be void and of no force or effect and (b) none of the Issuer, the Trustee, the Collateral Manager, the Note Registrar (in the case of the Notes) and the Preference Share Paying Agent and Preference Share Registrar (in the case of the Preference Shares) has any obligation to recognize any sale, pledge or other transfer of an Offered Security (or any interest therein) made in violation of any such transfer restriction or made based upon any such false or inaccurate representation.

(13) *Certain Sales Required.* The purchaser agrees that to the extent the purchaser becomes a Non-Consenting Noteholder, the Preference Shareholders shall have the right to purchase all of the Notes held by purchaser and the purchaser will, prior to any sale, pledge or other transfer by it of any Notes, deliver to the Issuer, the Trustee and the Note Registrar duly executed transferor and transferee certifications in the form of the relevant exhibit attached to the Indenture, and such certificates and other information as the Issuer or the Trustee may reasonably require to confirm that the proposed transfer complies with the transfer restrictions contain in the Offering Memorandum and in the Indenture.

(14) *Reliance on Representations, etc.* The purchaser acknowledges that the Issuer and the Initial Purchasers will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and agrees that, if any of the acknowledgments, representations or warranties by it in connection with its purchase of the Offered Securities, as the case may be, are no longer accurate, the purchaser will promptly notify the Issuer and the Initial Purchasers.

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

(16) *Legends for Notes.* 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 MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (A)(1) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A “QUALIFIED INSTITUTIONAL BUYER” (A “QUALIFIED INSTITUTIONAL BUYER”) WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT (“RULE 144A”) PURCHASING FOR ITS OWN ACCOUNT, TO WHOM NOTICE IS GIVEN THAT THE RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON THE EXEMPTION FROM SECURITIES ACT REGISTRATION PROVIDED BY RULE 144A OR (2) TO A NON-U.S. PERSON IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH REGULATIONS UNDER THE SECURITIES ACT (“REGULATIONS”), (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 OTHER RELEVANT JURISDICTION. NEITHER OF THE CO-ISSUERS NOR THE COLLATERAL HAS BEEN REGISTERED UNDER THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE “INVESTMENT COMPANY ACT”). NO TRANSFER OF A NOTE (OR ANY INTEREST THEREIN) MAY BE MADE (AND NEITHER THE TRUSTEE NOR THE NOTE REGISTRAR WILL RECOGNIZE ANY SUCH TRANSFER) IF (A) SUCH TRANSFER WOULD BE MADE TO A TRANSFeree WHO IS A U.S. PERSON THAT IS NOT (I) A “QUALIFIED PURCHASER” AS DEFINED IN SECTION 2(a)(51)(A) OF THE INVESTMENT COMPANY ACT OR (II) A COMPANY EACH OF WHOSE BENEFICIAL OWNERS IS A QUALIFIED PURCHASER (ANY PERSON DESCRIBED IN CLAUSES (I) AND (II), A “QUALIFIED PURCHASER”), (B) SUCH TRANSFER WOULD HAVE THE EFFECT OF REQUIRING EITHER OF THE CO-ISSUERS OR THE COLLATERAL TO REGISTER AS AN INVESTMENT COMPANY UNDER THE INVESTMENT COMPANY ACT, (C) SUCH TRANSFER WOULD BE MADE TO A U.S. PERSON THAT IS A FLOW-THROUGH INVESTMENT VEHICLE OTHER THAN A QUALIFYING INVESTMENT VEHICLE (EACH AS DEFINED IN THE INDENTURE) OR (D) SUCH TRANSFER WOULD BE MADE TO A PERSON WHO IS OTHERWISE UNABLE TO MAKE THE CERTIFICATIONS AND

REPRESENTATIONS REQUIRED BY THE APPLICABLE TRANSFER CERTIFICATE (IF ANY) ATTACHED AS AN EXHIBIT TO THE INDENTURE REFERRED TO BELOW.

In addition, the legend set forth on any Offered Note will also have the following:

EACH HOLDER OF THIS NOTE OR AN INTEREST THEREIN IS DEEMED TO REPRESENT AND WARRANT EITHER (A) THAT IT IS NOT (AND FOR SO LONG AS IT HOLDS THIS NOTE OR AN INTEREST THEREIN WILL NOT BE) AND IS NOT ACTING ON BEHALF OF (AND FOR SO LONG AS IT HOLDS THIS NOTE OR AN INTEREST THEREIN WILL NOT BE ACTING ON BEHALF) OF AN "EMPLOYEE BENEFIT PLAN" AS DEFINED IN SECTION 3(3) OF THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA") THAT IS SUBJECT TO TITLE I OF ERISA, A PLAN DESCRIBED IN SECTION 4975(e)(1) OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE") THAT IS SUBJECT TO SECTION 4975 OF THE CODE, AN ENTITY WHICH IS DEEMED TO HOLD THE ASSETS OF ANY SUCH EMPLOYEE BENEFIT PLAN OR PLAN PURSUANT TO 29 C.F.R. SECTION 2510.3-101 OR OTHERWISE, OR A GOVERNMENTAL OR CHURCH PLAN WHICH IS SUBJECT TO ANY FEDERAL, STATE OR LOCAL LAW THAT IS SIMILAR TO THE PROHIBITED TRANSACTION PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("SIMILAR LAW"), OR (B) ITS PURCHASE AND OWNERSHIP OF THIS NOTE WILL NOT CONSTITUTE OR RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF A GOVERNMENTAL OR CHURCH PLAN, WILL NOT RESULT IN A NON-EXEMPT VIOLATION OF ANY SUCH SIMILAR LAW). THIS NOTE AND ANY BENEFICIAL INTEREST HEREIN MAY BE TRANSFERRED ONLY IN PERMITTED DENOMINATIONS 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.

In addition, the legend set forth on any Class F Note will also have the following:

EACH ORIGINAL PURCHASER (AND EACH SUBSEQUENT TRANSFEREE) OF A CLASS F NOTE WILL BE REQUIRED TO CERTIFY (OR, IN CERTAIN CIRCUMSTANCES, DEEMED TO REPRESENT AND WARRANT) THAT IT IS NOT, AND IS NOT ACTING ON BEHALF OF OR USING ASSETS OF, AN EMPLOYEE BENEFIT PLAN THAT IS SUBJECT TO TITLE I OF ERISA, A PLAN DESCRIBED IN SECTION 4975(e)(1) OF THE CODE THAT IS SUBJECT TO THE PROHIBITED TRANSACTION PROVISIONS OF SECTION 4975 OF THE CODE OR AN ENTITY WHICH IS DEEMED TO HOLD THE ASSETS OF ANY SUCH EMPLOYEE BENEFIT PLAN OR PLAN PURSUANT TO 29 C.F.R. SECTION 2510.3-101, AS MODIFIED BY SECTION 3(42) OF ERISA, OR A GOVERNMENTAL OR CHURCH PLAN WHICH IS SUBJECT TO ANY FEDERAL, STATE OR LOCAL LAW THAT IS SUBSTANTIALLY SIMILAR TO THE PROHIBITED TRANSACTION PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE.

In addition, the legend set forth on any Restricted Global Note will also have the following:

IF, NOTWITHSTANDING THE RESTRICTIONS ON TRANSFER CONTAINED IN THE INDENTURE, THE ISSUER DETERMINES THAT ANY BENEFICIAL OWNER OF A RESTRICTED GLOBAL NOTE (OR ANY INTEREST THEREIN) (A) IS A U.S. PERSON (WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT) AND (B) IS NOT BOTH (I) A QUALIFIED INSTITUTIONAL BUYER AND (II) A QUALIFIED PURCHASER, THEN THE ISSUER MAY REQUIRE, BY NOTICE TO SUCH HOLDER, THAT SUCH HOLDER SELL ALL OF ITS RIGHT, TITLE AND INTEREST TO SUCH RESTRICTED GLOBAL NOTE (OR INTEREST THEREIN) TO A PERSON THAT IS BOTH A QUALIFIED INSTITUTIONAL BUYER AND A QUALIFIED PURCHASER, WITH SUCH SALE TO BE EFFECTED WITHIN 30 DAYS AFTER NOTICE OF SUCH SALE REQUIREMENT IS GIVEN. IF SUCH BENEFICIAL OWNER FAILS TO EFFECT THE TRANSFER REQUIRED WITHIN SUCH 30-DAY PERIOD, (1) UPON DIRECTION FROM THE ISSUER, THE TRUSTEE (ON BEHALF OF AND AT THE EXPENSE OF THE ISSUER) SHALL CAUSE SUCH BENEFICIAL OWNER'S INTEREST IN SUCH NOTE TO BE TRANSFERRED IN A COMMERCIALY REASONABLE SALE (CONDUCTED BY THE TRUSTEE IN ACCORDANCE WITH SECTION 9-610 OF THE UNIFORM COMMERCIAL CODE AS IN EFFECT IN THE STATE OF NEW YORK) TO A PERSON THAT CERTIFIES TO THE TRUSTEE, THE

CO-ISSUERS AND THE COLLATERAL MANAGER, IN CONNECTION WITH SUCH TRANSFER, THAT SUCH PERSON IS BOTH (I) A QUALIFIED INSTITUTIONAL BUYER AND (II) A QUALIFIED PURCHASER AND (2) PENDING SUCH TRANSFER, NO FURTHER PAYMENTS WILL BE MADE IN RESPECT OF SUCH NOTE (OR INTEREST THEREIN) HELD BY SUCH BENEFICIAL OWNER.

IN ADDITION, NO TRANSFER OF THIS NOTE (OR ANY INTEREST HEREIN) MAY BE MADE (AND NEITHER THE TRUSTEE NOR THE NOTE REGISTRAR WILL RECOGNIZE ANY SUCH TRANSFER) IF SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE THAT IS (A) A DEALER DESCRIBED IN PARAGRAPH (A)(1)(ii) OF RULE 144A WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.\$25,000,000 IN SECURITIES OF ISSUERS THAT ARE NOT AFFILIATED PERSONS OF THE DEALER OR (B) A PLAN REFERRED TO IN PARAGRAPH (a)(1)(I)(D) OR (a)(1)(i)(E) OF RULE 144A OR A TRUST FUND REFERRED TO IN PARAGRAPH (a)(1)(i)(F) OF RULE 144A THAT HOLDS THE ASSETS OF SUCH A PLAN, UNLESS INVESTMENT DECISIONS WITH RESPECT TO THE PLAN ARE MADE SOLELY BY THE FIDUCIARY, TRUSTEE OR SPONSOR OF SUCH PLAN. THE TRANSFEREE, AND EACH ACCOUNT FOR WHICH IT IS PURCHASING, IS REQUIRED TO HOLD AND TRANSFER AT LEAST THE MINIMUM DENOMINATIONS OF THE NOTES.

In addition, the legend set forth on any Restricted Global Note and Regulation S Global Note will also have the following:

UNLESS THIS NOTE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY (“DTC”) TO THE NOTE REGISTRAR FOR REGISTRATION OF TRANSFER OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

In addition, each Note sold to the public by either of the Initial Purchasers at a discount that is more than de minimis, if any, will bear the following legend:

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: CALYON SECURITIES (USA) INC., 1301 AVENUE OF THE AMERICAS, NEW YORK, NEW YORK 10019 ATTN: CREDIT MARKETS & CDOs.

(17) *Legend for Preference Shares.* The purchaser understands and agrees that a legend in substantially the following form will be placed on each certificate representing any *Preference Shares*:

THE PREFERENCE SHARES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION, AND MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (A)(1) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A “QUALIFIED INSTITUTIONAL BUYER” (A QUALIFIED INSTITUTIONAL BUYER) WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT (“RULE 144A”), PURCHASING FOR ITS OWN ACCOUNT, TO WHOM NOTICE IS GIVEN THAT THE RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON THE EXEMPTION FROM SECURITIES ACT REGISTRATION PROVIDED BY RULE 144A, (2) TO AN INSTITUTIONAL ACCREDITED INVESTOR (MEETING THE DESCRIPTION SET FORTH IN RULE 501(a)(1), (2), (3) OR (7) UNDER THE SECURITIES ACT) IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT OR (3) TO A NON-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 PREFERENCE SHARE PAYING AGENCY AGREEMENT

REFERRED TO HEREIN AND (C) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY OTHER RELEVANT JURISDICTION. NEITHER THE ISSUER NOR THE COLLATERAL HAS BEEN REGISTERED UNDER THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE “INVESTMENT COMPANY ACT”). NO TRANSFER OF A PREFERENCE SHARE (OR ANY INTEREST THEREIN) MAY BE MADE (AND NEITHER THE ISSUER NOR THE PREFERENCE SHARE REGISTRAR WILL RECOGNIZE ANY SUCH TRANSFER) IF (A) SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE WHO IS A U.S. PERSON THAT IS NOT (I) A “QUALIFIED PURCHASER” AS DEFINED IN SECTION 2(a)(51)(A) OF THE INVESTMENT COMPANY ACT OR (II) A COMPANY EACH OF WHOSE BENEFICIAL OWNERS IS A QUALIFIED PURCHASER (ANY PERSON DESCRIBED IN CLAUSES (I) AND (II), A QUALIFIED PURCHASER), (B) AFTER GIVING EFFECT TO SUCH TRANSFER, 25% OR MORE OF THE PREFERENCE SHARES, AS DETERMINED UNDER THE PLAN ASSET REGULATION OF THE UNITED STATES DEPARTMENT OF LABOR, 29 C.F.R. SECTION 2510.3-101(f), AS MODIFIED BY SECTION 3(42) OF ERISA, WOULD BE HELD BY BENEFIT PLAN INVESTORS (EITHER DIRECTLY OR THROUGH AN INSURANCE COMPANY GENERAL ACCOUNT) OR SUCH TRANSFER WOULD BE MADE TO A PERSON WHO IS OTHERWISE UNABLE TO MAKE THE CERTIFICATIONS AND REPRESENTATIONS REQUIRED BY THE APPLICABLE TRANSFER CERTIFICATE ATTACHED AS AN EXHIBIT TO THE PREFERENCE SHARE PAYING AGENCY AGREEMENT, (C) SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE THAT IS A U.S. PERSON THAT IS A FLOW-THROUGH INVESTMENT VEHICLE OTHER THAN A QUALIFYING INVESTMENT VEHICLE (EACH AS DEFINED IN THE TRANSFER CERTIFICATE ATTACHED TO THE PREFERENCE SHARE PAYING AGENCY AGREEMENT) OR (D) SUCH TRANSFER WOULD BE MADE TO A PERSON WHO IS OTHERWISE UNABLE TO MAKE THE CERTIFICATIONS AND REPRESENTATIONS REQUIRED OR DEEMED TO BE MADE PURSUANT TO THE PREFERENCE SHARE PAYING AGENCY AGREEMENT REFERRED TO HEREIN. AN INTEREST IN A REGULATION S GLOBAL PREFERENCE SHARE MAY BE HELD ONLY THROUGH EUROCLEAR OR CLEARSTREAM, LUXEMBOURG. ACCORDINGLY, AN INVESTOR IN THE PREFERENCE SHARES MUST BE PREPARED TO BEAR THE ECONOMIC RISK OF THE INVESTMENT FOR AN INDEFINITE PERIOD OF TIME. THE PREFERENCE SHARES REPRESENTED HEREBY OR ANY BENEFICIAL INTEREST HEREIN MAY BE TRANSFERRED IN THE UNITED STATES OR TO U.S. PERSONS ONLY IF THE PURCHASER IS (a)(1) A QUALIFIED INSTITUTIONAL BUYER, AN INSTITUTIONAL ACCREDITED INVESTOR OR A PERSON ENTITLED TO TAKE DELIVERY OF SUCH PREFERENCE SHARE PURSUANT TO ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND (2) A QUALIFIED PURCHASER AND (b) ACQUIRING THE SECURITIES FOR ITS OWN ACCOUNT, AND IN AN AMOUNT NOT LESS THAN THE MINIMUM DENOMINATION SPECIFIED IN THE PREFERENCE SHARE PAYING AGENCY AGREEMENT. THIS SECURITY OR ANY BENEFICIAL INTEREST HEREIN MAY BE TRANSFERRED TO A PERSON WHO ACQUIRES A BENEFICIAL INTEREST IN A REGULATION S PREFERENCE SHARE CERTIFICATE UPON RECEIPT BY THE PREFERENCE SHARE PAYING AGENT OF (1) A TRANSFER CERTIFICATE FROM THE TRANSFEROR SUBSTANTIALLY IN THE FORM SPECIFIED IN THE PREFERENCE SHARE PAYING AGENCY AGREEMENT AND (2) A LETTER IN THE FORM ATTACHED AS AN EXHIBIT TO THE PREFERENCE SHARE PAYING AGENCY AGREEMENT TO THE EFFECT THAT SUCH TRANSFEREE WILL NOT TRANSFER SUCH INTEREST EXCEPT IN COMPLIANCE WITH THE TRANSFER RESTRICTIONS SET FORTH IN THE PREFERENCE SHARE PAYING AGENCY AGREEMENT (INCLUDING THE REQUIREMENT THAT ANY SUBSEQUENT TRANSFEREE OF AN INTEREST IN REGULATION S PREFERENCE SHARES EXECUTE AND DELIVER SUCH LETTER AS A CONDITION TO ANY SUBSEQUENT TRANSFER). IF, NOTWITHSTANDING THE RESTRICTIONS SET FORTH IN THE PREFERENCE SHARE PAYING AGENCY AGREEMENT, THE ISSUER DETERMINES THAT ANY HOLDER OF THIS SECURITY OR AN INTEREST HEREIN (I) IS A U.S. PERSON AND (II) IS NOT BOTH (A) A QUALIFIED INSTITUTIONAL BUYER OR AN INSTITUTIONAL ACCREDITED INVESTOR AND (B) A QUALIFIED PURCHASER, THE ISSUER MAY REQUIRE, BY NOTICE TO SUCH HOLDER THAT SUCH HOLDER SELL ALL OF ITS RIGHT, TITLE AND INTEREST TO THIS SECURITY (OR INTEREST HEREIN) TO A PERSON THAT IS (1) A QUALIFIED INSTITUTIONAL BUYER OR AN INSTITUTIONAL ACCREDITED INVESTOR AND (2) A QUALIFIED PURCHASER WITH SUCH SALE TO BE EFFECTED WITHIN 30 DAYS AFTER NOTICE OF SUCH SALE REQUIREMENT IS GIVEN. IF SUCH HOLDER FAILS TO EFFECT THE TRANSFER REQUIRED WITHIN SUCH 30-DAY PERIOD, (X) UPON WRITTEN DIRECTION FROM THE ISSUER, THE

PREFERENCE SHARE PAYING AGENT SHALL, AND IS HEREBY IRREVOCABLY AUTHORIZED BY SUCH HOLDER TO, CAUSE SUCH HOLDER'S INTEREST IN THIS SECURITY TO BE TRANSFERRED IN A COMMERCIALY REASONABLE SALE (CONDUCTED BY THE PREFERENCE SHARE PAYING AGENT IN ACCORDANCE WITH SECTION 9-610 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 ARE THE SUBJECT OF WIDELY DISTRIBUTED STANDARD PRICE QUOTATIONS) TO A PERSON THAT CERTIFIES TO THE PREFERENCE SHARE PAYING AGENT, THE ISSUER AND THE COLLATERAL MANAGER, IN CONNECTION WITH SUCH TRANSFER, THAT SUCH PERSON IS BOTH (1) A QUALIFIED INSTITUTIONAL BUYER OR AN INSTITUTIONAL ACCREDITED INVESTOR AND (2) A QUALIFIED PURCHASER, AND (Y) PENDING SUCH TRANSFER, NO FURTHER PAYMENTS WILL BE MADE IN RESPECT OF THE INTEREST IN THIS SECURITY HELD BY SUCH HOLDER, AND THE INTEREST IN THIS SECURITY SHALL NOT BE DEEMED TO BE OUTSTANDING FOR THE PURPOSE OF ANY VOTE OR CONSENT OF THE HOLDERS OF THE PREFERENCE SHARES. THE ISSUER ALSO MAY REQUIRE ANY HOLDER OF THIS PREFERENCE SHARE WHOSE INVESTMENT IN THE PREFERENCE SHARES CONSTITUTES IN WHOLE OR IN PART AN INVESTMENT BY A BENEFIT PLAN INVESTOR OR A CONTROLLING PERSON (AS DEFINED IN THE PREFERENCE SHARE PAYING AGENCY AGREEMENT) AND IS DETERMINED TO EXCEED THE PERCENTAGE OF ITS INVESTMENT THAT IT REPORTED AS SUCH IN THE RELATED NOTE PURCHASE AGREEMENT OR TRANSFER CERTIFICATE, AS APPLICABLE, TO SELL ITS PREFERENCE SHARES.

The following will be inserted in the case of Regulation S Global Preference Shares:

AN INTEREST IN THIS PREFERENCE SHARE MAY NOT BE TRANSFERRED TO A PERSON THAT IS, OR IS ACTING ON BEHALF OF, A BENEFIT PLAN INVESTOR OR A CONTROLLING PERSON (EACH, AS DEFINED IN THE PREFERENCE SHARE PAYING AGENCY AGREEMENT) AT ANY TIME. THE ISSUER MAY REQUIRE ANY HOLDER OF AN INTEREST IN THIS PREFERENCE SHARE WHO IS DETERMINED TO BE A BENEFIT PLAN INVESTOR OR A CONTROLLING PERSON TO SELL ITS INTEREST IN THIS PREFERENCE SHARE. NO U.S. PERSON MAY HOLD THESE REGULATION S GLOBAL PREFERENCE SHARES (OR ANY INTEREST HEREIN).

THIS PREFERENCE SHARE CERTIFICATE REPRESENTS REGULATION S GLOBAL PREFERENCE SHARES 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 PREFERENCE SHARES AND BY ACCEPTANCE THEREOF EACH HOLDER AGREES TO BE SUBJECT TO AND BOUND BY THE TERMS AND PROVISIONS SET FORTH IN SUCH LEGEND.

UPON ANY SUCH EXCHANGE OR TRANSFER OF A BENEFICIAL INTEREST IN THIS PREFERENCE SHARE CERTIFICATE FOR A DEFINITIVE PREFERENCE SHARE CERTIFICATE OR FOR A RESTRICTED PREFERENCE SHARE CERTIFICATE OR UPON ANY EXCHANGE OR TRANSFER OF A DEFINITIVE PREFERENCE SHARE CERTIFICATE OR A RESTRICTED PREFERENCE SHARE CERTIFICATE FOR AN INTEREST IN THIS PREFERENCE SHARE CERTIFICATE IN ACCORDANCE WITH THE PREFERENCE SHARE PAYING AGENCY AGREEMENT, THIS REGULATION S GLOBAL CERTIFICATE SHALL BE ENDORSED TO REFLECT THE CHANGE OF THE PRINCIPAL AMOUNT EVIDENCED HEREBY.

(18) *Withholding Certification.* The purchaser understands that each of the Co-Issuers, the Trustee or any Paying Agent will require certification acceptable to it (i) as a condition to the payment of principal of and interest (or, in the case of the Class A-1 Notes, the Commitment Fee) on any Securities without, or at a reduced rate of, U.S. withholding or backup withholding tax, and (ii) to enable each of the Co-Issuers, the Trustee and any Paying Agent to determine their duties and liabilities with respect to any taxes or other charges that they may be required to pay, deduct or withhold from payments in respect of such Securities or the Holder of such Securities under any present or future law or regulation of the Cayman Islands or the United States or any present or future law or regulation of any political subdivision

thereof or taxing authority therein or to comply with any reporting or other requirements under any such law or regulation. Such certification may include U.S. federal income tax forms (such as IRS Form W-8BEN (Certification of Foreign Status of Beneficial Owner), Form W-8IMY (Certification of Foreign Intermediary Status), IRS Form W-9 (Request for Taxpayer Identification Number and Certification), or IRS Form W-8ECI (Certification of Foreign Person's Claim for Exemption from Withholding on Income Effectively Connected with Conduct of a U.S. Trade or Business) or any successors to such IRS forms). In addition, each of the Co-Issuers, the Trustee or any Paying Agent may require certification acceptable to it to enable the Issuer to qualify for a reduced rate of withholding in any jurisdiction from or through which the Issuer receives payments on its assets. Each purchaser agrees to provide any certification requested pursuant to this paragraph and to update or replace such form or certification in accordance with its terms or its subsequent amendments.

(19) *Tax Treatment.* The purchaser hereby agrees that, for purposes of U.S. federal, state and local income and franchise tax and any other income taxes, (i) the Issuer will be treated as a corporation, (ii) the Notes will be treated as indebtedness of the Issuer, and (iii) the Preference Shares will be treated as equity in the Issuer; the purchaser agrees to such treatment and agrees to take no action inconsistent with such treatment, unless required by law.

(20) The Purchaser, if not a "United States person" (as defined in Section 7701(a)(30) of the Code), either: (A) is not a bank (within the meaning of Section 881(c)(3)(A) of the Code); (B) if such Purchaser is a bank (within the meaning of Section 881(c)(3)(A) of the Code), after giving effect to its purchase of Securities, the Purchaser (x) will not own more than 50% of the Preferred Shares (by number) or 50% by value of the aggregate of the preferred and all classes of notes that are treated as equity for US federal income tax purposes either directly or indirectly, and will not otherwise be related to the Issuer (within the meaning of section 267(b) of the Code) and (y) has not purchased the Securities in whole or in part to avoid any U.S. federal tax liability (including, without limitation, any U.S. withholding tax that would be imposed on the Securities with respect to the Collateral Debt Obligations if held directly by the Purchaser); (C) has provided an IRS Form W-8ECI representing that all payments received or to be received by it from the Issuer are effectively connected with the conduct of a trade or business in the United States, or (D) is eligible for benefits under an income tax treaty with the United States that eliminates U.S. federal income taxation of U.S. source interest not attributable to a permanent establishment in the United States and the Issuer is treated as a fiscally transparent entity (as defined in Treasury regulations section 1.894-1(d)(3)(iii)) under the laws of Purchaser's jurisdiction with respect to payments made on the Collateral Debt Obligations held by the Issuer.

(21) The beneficial owner, if it is not a "United States person" as defined in section 7701(a)(30) of the Code, is not acquiring any Note as part of a plan to reduce, avoid or evade U.S. federal income taxes owned, owing or potentially owed or owing.

(22) Each purchaser of a Note or Regulation S Global Preference Share understands that the Issuer may receive a list of participants holding positions in such Offered Securities from one or more book-entry depositaries including DTC, Euroclear and Clearstream, Luxembourg.

Investor Representations on Resale

Except as provided below, each transferor and transferee of an Offered Security will be required to deliver a duly executed transferee certificate in the form of the relevant exhibit attached to the Indenture or the Preference Share Paying Agency Agreement, as the case may be, and such other certificates and other information as the Issuer, the Co-Issuer, the Trustee or the Preference Share Paying Agent may reasonably require to confirm that the proposed transfer complies with the transfer restrictions contained in the Offering Memorandum and the Indenture or the Preference Share Paying Agency Agreement, as applicable.

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, *provided* that such transfer is made (a) to a transferee that (i) 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 that is a Qualified Purchaser and (ii) is not a

Flow-Through Investment Vehicle (other than a Qualifying Investment Vehicle) or, if such transferee is a Flow-Through Investment Vehicle (other than a Qualifying Investment Vehicle), has represented and warranted that it has only one class of securities outstanding (other than any nominal share capital the distributions in respect of which are not correlated to or dependent upon distributions on, or the performance of, the Offered Securities), (b) in accordance with any applicable securities laws of any state of the United States or any other jurisdiction and (c) only in accordance with the Applicable Procedures.

An owner of a beneficial interest in a Regulation S Global Preference Share may transfer such interest in the form of a beneficial interest in such Regulation S Global Preference Share without the provision of written certification, *provided* that (a) 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 in an offshore transaction as required by Regulation S and only in accordance with the Applicable Procedures and (b) the transferee acquiring an interest in such Regulation S Global Preference Share executes and delivers to the Issuer and the Preference Share Paying Agent, as the case may be, a letter in the form attached as an exhibit to the Indenture or a letter in the form attached as an exhibit to the Preference Share Paying Agency Agreement, as the case may be, to the effect that such transferee will not transfer such interest except in compliance with the transfer restrictions set forth in the Indenture or Preference Share Paying Agency Agreement, as the case may be (including the requirement that any subsequent transferee execute and deliver such letter as a condition to any subsequent transfer).

Each transferee of a beneficial interest in a Global Security will be deemed to make the applicable representations and warranties described herein.

Each transferee of an Offered Security that is required to deliver a transfer certificate will be required, pursuant to such transferee certificate, and each transferee that is not required to deliver a certificate will be deemed (a) to acknowledge, represent to and agree with the Co-Issuers and the Trustee (in the case of a Note) or the Issuer and the Preference Share Paying Agent (in the case of a Preference Share) as to the matters set forth in each of paragraphs (1) through (20) above (other than paragraphs (5) and (6) above) as if each reference therein to “the purchaser” were instead a reference to the transferee and (b) to further represent to and agree with the Co-Issuers and the Trustee (in the case of a Note) or to the Issuer and the Preference Share Paying Agent (in the case of a Preference Share) as follows:

(1) In the case of a transferee who takes delivery of a Restricted Security (or a beneficial interest therein), it is a Qualified Institutional Buyer or, in the case of a Restricted Definitive Note or a Restricted Preference Share, an Institutional Accredited Investor and also a Qualified Purchaser and is acquiring such Restricted Security (or beneficial interest therein) for its own account and is aware that such transfer is being made to it in reliance on Rule 144A. In addition, if such transferee is acquiring a beneficial interest in a Restricted Global Note, it (i) 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, (ii) 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 (iii) it will provide written notice of the foregoing, and of any applicable restrictions on transfer, to any transferee.

(2) In the case of a transferee who takes delivery of a Regulation S Security (or a beneficial interest therein), it is not a U.S. Person and (i) is acquiring such Regulation S Security (or beneficial interest therein) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, (ii) is acquiring such Regulation S Security for its own account and not for the account or benefit of a U.S. Person, (iii) is not acquiring, and has not entered into any discussions regarding its acquisition of, such Regulation S Security while it is in the United States or any of its territories or possessions, (iv) understands that such Regulation S Security is being sold without registration under the Securities Act by reason of an exemption that depends, in part, on the accuracy of these representations and (v) understands that such Regulation S Security 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.

(3) It acknowledges that the foregoing acknowledgements, representations and agreements will be relied upon by the Co-Issuers and the Trustee (in the case of a Note) or the Issuer and the Preference Share Paying Agent (in the case of a Preference Share) for the purpose of determining its eligibility to purchase Offered Securities, as the case may be. It agrees to provide, if requested, any additional information that may be required to substantiate or confirm its status as a Qualified Institutional Buyer, Institutional Accredited Investor or under the exception provided pursuant to Section 3(c)(7) of the Investment Company Act, to determine compliance with ERISA and/or Section 4975 of the Code or to otherwise determine its eligibility to purchase Offered Securities.

LISTING AND GENERAL INFORMATION

Application will be made to admit Securities on the Cayman Stock Exchange which obtained UK Inland Revenue recognized stock exchange status and was granted affiliate membership of the International Organization of Securities Commissions. There can be no assurance that such listing will be obtained or, if it is obtained, will be maintained for the entire period that the Securities are outstanding. The Indenture will not require the Issuer to maintain a listing for any Class of Securities on the Cayman Stock Exchange if the Cayman Stock Exchange or the Cayman Islands adopts prospectus directives or requirements compliance with which the Collateral Manager determines (in its sole discretion) to be unduly burdensome.

Copies of the Offering Memorandum, the Indenture, Collateral Management Agreement, the Collateral Administration Agreement, the Preference Share Documents, the Account Control Document, the Securities Purchase Agreement, the Class A-1 Note Purchase Agreement, the Closing Date Swap Agreement, the Credit Default Swap Agreement and a description of the Collateral will be available for physical inspection for so long as any Securities are listed on the Cayman Stock Exchange and will be obtainable at the registered office of the Issuer.

Application will be made to list the Securities on the Cayman Stock Exchange which obtained UK Inland Revenue recognized stock exchange status and was granted affiliate membership of the International Organization of Securities Commissions. The Indenture will not require the Issuer to maintain a listing for any Class of Securities on the Cayman Stock Exchange if the Cayman Stock Exchange or the Cayman Islands adopts prospectus directives or requirements compliance with which the Collateral Manager determines (in its sole discretion) to be unduly burdensome.

The Issuer is not required by Cayman Islands law and the Issuer does not intend, to publish annual reports and accounts. The Co-Issuer is not required by Delaware state law, and the Co-Issuer does not intend, to publish annual reports and accounts. The Indenture, however, requires the Issuer to provide the Trustee with a written certificate, on an annual basis, that to the best of its knowledge following review of the activities of the prior year, no Event of Default has occurred or if there has been an Event of Default, the certificate will set forth the nature and status thereof, including actions undertaken to remedy the same.

The issuance of the Offered Securities is expected to be authorized by the Board of Directors of the Issuer by resolutions passed on or before the Closing Date. The issuance of the Notes is expected to be authorized by the sole manager of the Co-Issuer by action by written consent of the sole manager to be passed on or before the Closing Date. Since incorporation or formation, as applicable, neither the Issuer nor the Co-Issuer has commenced trading or established any accounts, except as disclosed herein or accounts used to hold amounts received with respect to share capital and fees.

Since their dates of incorporation or formation, as the case may be, the Co-Issuers have not been involved in any litigation or arbitration proceedings relating to claims on amounts that may have or have had a significant effect on the Co-Issuers, nor, so far as such Co-Issuers are aware, is any such litigation or arbitration involving either of them pending or threatened. Since their dates of incorporation or formation, as the case may be, neither Issuer nor the Co-Issuer has engaged in operations other than those preparatory to the transactions contemplated herein and no financial reports or accounts have been prepared as of the date of the Offering Memorandum to the Cayman Stock Exchange.

The Class A-1 Notes, Class A-2 Notes, Class B Notes, Class C Notes, Class D Notes, Class E Notes and Class F Notes sold in offshore transactions in reliance on Regulation S and represented by the Regulation S Global Notes are expected to be accepted for clearance through Clearstream and Euroclear under the Common Codes indicated below. The CUSIP Numbers and International Securities Identification Numbers (“**ISIN**”) for the Class A-1 Notes, Class A-2 Notes, Class B Notes, Class C Notes, Class D Notes, Class E Notes and Class F Notes represented by Regulation S Global Notes and Rule 144A Global Notes are as indicated below:

	Regulation S Notes		Rule 144A Notes	
	CUSIP	ISIN	CUSIP	ISIN
Class A-1 Notes	G9389VAA4	USG9389VAA47	928637AA5	US928637AA50
Class A-2 Notes	G9389VAC0	USG9389VAC03	928637AC1	US928637AC17
Class B Notes	G9389VAD8	USG9389VAD85	928637AD9	US928637AD99
Class C Notes	G9389VAE6	USG9389VAE68	928637AE7	US928637AE72
Class D Notes	G9389VAF3	USG9389VAF34	928637AF4	US928637AF48
Class E Notes	G9389VAG1	USG9389VAG17	928637AG2	US928637AG21
Class F Notes	G9389VAH9	USG9389VAH99	928637AH0	US928637AH04

The CUSIP (or PPN) and ISIN numbers for the Preference Shares are as indicated below:

	Regulation S Global Preference Shares		Rule 144A Restricted Preference Shares	
	CUSIP	ISIN	CUSIP	ISIN
Preference Shares	G9389R105	KYG9389R1056	928636208	US9286362085

LEGAL MATTERS

Certain legal matters with respect to the Offered Securities will be passed upon for the Issuer by Cadwalader, Wickersham & Taft LLP, Charlotte, North Carolina. Certain matters with respect to Cayman Islands corporate law and tax law will be passed upon for the Issuer by Maples and Calder. Certain legal matters with respect to the Collateral Manager will be passed upon by Clifford Chance LLP, New York, New York. Certain legal matters with respect to the Initial Purchasers will be passed upon by Cadwalader, Wickersham & Taft LLP, Charlotte, North Carolina.

GLOSSARY

“AAA/Aaa Coverage Ratio” means the ratio expressed as a percentage of the Net Outstanding Portfolio Collateral Balance (giving effect to the Haircut Amount; *provided* that the applicable Haircut Amount is greater than the deduction imposed by operation of the definition of “Principal Balance”) to the sum of the Aggregate Outstanding Amounts of the Class A Notes and the Remaining Unfunded Class A-1 Commitment Amount.

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

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

“ABS 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.

“ABS Natural Resource Receivable Security” means Asset-Backed Securities that entitle the holders thereof to receive payments that depend on the cash flow from the sale of products derived from the right to harvest, mine, extract or exploit a natural resource such as timber, oil, gas and minerals, generally having the following characteristics: (i) the contracts have standardized payment terms, (ii) the contracts are the obligations of a few consumers of natural resources and accordingly represent an undiversified pool of credit risk and (iii) the repayment stream on such contracts is primarily determined by a contractual payment schedule.

“ABS Stadium Securities” means Asset Backed Securities that entitle the holders thereof to receive payments that depend on the cash flow generated from sales, royalties and/or fees for events, rights and services associated with a stadium or arena by a special purpose entity formed to construct, develop and own and/or operate the stadium or arena and such stadium or arena was or is 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).

“ABS Type Diversified Securities” means (1) Automobile Securities; (2) Car Rental Receivable Securities; (3) Credit Card Securities; (4) Student Loan Securities; and (5) any other type of Asset-Backed Securities that

become a Specified Type after the Closing Date as described below and are designated as “ABS Type Diversified Securities” in connection therewith.

“ABS Type Residential Securities” means (1) Home Equity Loan Securities; (2) Manufactured Housing Securities; (3) RMBS Prime Mortgage Securities; (4) RMBS Mid-Prime Mortgage Securities; (5) RMBS Subprime Mortgage Securities, (6) Time Share Securities and (7) any other type of Asset-Backed Securities that become a Specified Type after the Closing Date as described below and are designated as “ABS Type Residential Securities” in connection therewith.

“ABS Type Undiversified Securities” means each Specified Type of Asset-Backed Securities, other than (a) ABS Type Diversified Securities or (b) ABS Type Residential Securities; and any other type of Asset-Backed Securities that become a Specified Type after the Closing Date as described below and are designated as “ABS Type Undiversified Securities” in connection therewith.

“ABX Index” means an index constituted from reference obligations issued by 20 issuers of home equity loan securities, as published by Markit Group Limited (or its successor) or any replacement therefor appointed by CDS IndexCo LLC, as Index Sponsor of the ABX Index.

“ABX Index Synthetic Security” means a credit default swap whereby the Issuer gains credit exposure to the reference obligations comprising an ABX Index. For all purposes (except the calculation of the Weighted Average Premium/Spread Test), an ABX Index Synthetic Security will be treated as a Collateral Debt Security having the characteristics of each obligor referenced in the related index (but excluding any obligor with respect to which the Issuer has entered into an ABX Index Hedge Agreement pursuant to which the Issuer eliminates all or part of its credit exposure to such obligor to the extent of the related notional amount of the exposure hedged by such ABX Index Hedge Agreement).

“Actual Interest Amount” means, with respect to any payment date under the Reference Obligation related to a CDS Agreement Transaction, payment by or on behalf of the issuer of the Reference Obligation 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) to the holder(s) of the Reference Obligation in respect of the Reference Obligation.

“Affiliate” means, with respect to a specified person or entity, (a) any other person or entity who, directly or indirectly, is in control of, or controlled by, or is under common control with, such person or entity or (b) any other person or entity who is a director, officer, employee, member or general partner of such person or entity or any such other person or entity described in clause (a) above. For the purposes of this definition, control of a person or entity shall mean the power, direct or indirect, (i) to vote more than 50% of the securities having ordinary voting power for the election of directors of such person or entity or (ii) to direct or cause the direction of the management and policies of such person or entity whether by contract or otherwise; *provided* that no other special purpose company to which the Administrator provides directors and acts as share trustee or administrator shall be an Affiliate of the Issuer or the Co-Issuer.

“Aggregate Amortized Cost” means, with respect to any Zero Coupon Bond, (a) on the date of acquisition thereof by the Issuer, the cost of purchase thereof and (b) on any date thereafter, the present value of all remaining payments on such security discounted to such date of determination as of each subsequent Distribution Date at a discount rate per annum equal to the internal rate of return on such security as calculated by the Collateral Manager in good faith and in the exercise of its judgment at the time of purchase thereof by the Issuer.

“Aggregate Attributable Amount” means, with respect to any specified Collateral Debt Security and related issuers incorporated or organized under the laws of any specified jurisdiction or jurisdictions, (a) the Aggregate Principal Balance of such Collateral Debt Security multiplied by (b) the aggregate par amount of collateral securing such Collateral Debt Security issued by issuers so organized divided by (c) the aggregate par amount of all collateral securing such Collateral Debt Security. The Collateral Manager shall determine the Aggregate Attributable Amount with respect to any specified Collateral Debt Security and issuer or issuers based upon information in the most recent servicing, trustee or other similar report delivered in accordance with the related Underlying Instruments and, if no such information is available after inquiry of the relevant issuer, servicer, collateral manager or any other

person or entity serving in a similar capacity, by estimating such Aggregate Attributable Amount in good faith and in the exercise of its judgment based upon all relevant information otherwise reasonably available to the Collateral Manager.

“Aggregate Commitment Amount” means, at any time, an amount equal to the aggregate Commitment Amounts of all Class A-1 Noteholders.

“Aggregate Outstanding Amount” means, when used with respect to any of the Class A-1 Notes at any time, the aggregate funded principal amount of the Class A-1 Notes outstanding at such time, and when used with respect to any other Class of Notes at any time, the aggregate principal amount of such Notes Outstanding at such time; *provided* that with respect to any vote, consent or decision that the holders of the Class A-1 Notes are entitled to participate in, the Aggregate Outstanding Amount of the Class A-1 Notes shall be the sum of the aggregate funded principal amount of the Class A-1 Notes outstanding at such time plus the Remaining Unfunded Class A-1 Commitment Amount, if any.

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

“Aircraft Leasing 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 cashflow from a portfolio consisting of aircraft leases and subleases, 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 or sublessee or guarantees granted by third parties. For purposes of this definition, Aircraft Leasing Securities will include enhanced equipment trust certificates with respect to aircraft.

“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 in (x) the table corresponding to the relevant Specified Type of Collateral Debt Security, (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 percentage of the Issue of which such Collateral Debt Security including, for senior only bonds, all other bonds which are *pari passu* in terms of losses, is a part relative to 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 such Collateral Debt Security is a U.S. Agency Guaranteed Security or FHLMC/FNMA Guaranteed Security, it shall be treated as an ABS Type Diversified Security for the purposes of applying the recovery rate in Part I of Schedule A, (2) if the timely payment of principal of and interest on such Collateral Debt Security is guaranteed (and such guarantee ranks equally and ratably with the guarantor’s senior unsecured debt) by another person, unless such Collateral Debt Security is a U.S. Agency Guaranteed Security or FHLMC/FNMA Guaranteed Security, such amount shall be 30%, (3)(A) if such Collateral Debt Security is a REIT Debt Security other than a REIT Debt Security Health Care or REIT Debt Security Mortgage, such amount shall be 40% and (B) if such Collateral Debt Security is a REIT Debt Security Health Care or REIT Debt Security Mortgage, such amount shall be 10%, and (4) if such Collateral Debt Security is a Reinsurance Security, such amount shall be assigned by Moody’s upon the purchase of each such Collateral Debt Security and (b) an amount equal to the percentage for such Collateral Debt Security set forth in the Standard & Poor’s recovery rate matrix set forth in Part II of Schedule A in (x) the applicable table, (y) the row in such table opposite the Standard & Poor’s Rating of such Collateral Debt Security at the time of issuance and (z)(i) for purposes of determining the Standard & Poor’s Weighted Average Recovery Rate, the column in such table below the current rating of the respective Class of Notes or (ii) for purposes of determining the Calculation Amount, in the column in such table below the current rating of the Class of Outstanding Notes with the highest rating by Standard

& Poor's. For purposes of the definition of "Applicable Recovery Rate", the Issuer will request Moody's or Standard & Poor's to assign a recovery rate to any Synthetic Security that is not a Form-Approved Synthetic Security prior to the acquisition thereof.

"Asset-Backed Security" means (i) a security issued by an entity formed for the purpose of holding or investing and reinvesting in a pool, either fixed or revolving (the composition of which cannot vary as a result of a decision by the Collateral Manager and its Affiliates), of receivables, debt obligations, debt securities, finance leases or other similar assets subject to specified acquisition or investment and management criteria designed to assure the servicing or timely distribution of proceeds to holders of the securities or (ii) a beneficial interest in a trust, all of the assets of which would satisfy the Investment Criteria.

"Assigned Value" means, as of any date of determination, the fair market value assigned to a Reference Obligation (based on the notional amount thereof) in respect of a Synthetic Security meeting the Synthetic Security Discount Criteria, by the bona fide bid for such Reference Obligation obtained by the Collateral Manager as of such date from any nationally recognized dealer chosen by the Collateral Manager, which dealer is Independent from the Collateral Manager.

"Automobile Securities" means Asset-Backed Securities (other than Recreational Vehicle 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 prime installment sale loans made to finance the acquisition of, or from leases of, automobiles, generally having the following characteristics: (1) the loans or leases may have varying contractual maturities; (2) the loans or leases are obligations of numerous borrowers or lessees and accordingly represent a very diversified pool of obligor credit risk; (3) the borrowers or lessees under the loans or leases generally do not have a poor credit rating; (4) the repayment stream on such loans or leases is primarily determined by a contractual payment schedule, with early repayment on such loans or leases predominantly dependent upon the disposition of the underlying vehicle; and (5) such leases typically provide for the right of the lessee to purchase the vehicle for its stated residual value, subject to payments at the end of lease term for excess mileage or use.

"Bank Guaranteed Securities" means Asset-Backed Securities as to which, (a) 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 the relevant 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 or (b) the timely payment of interest on, or the payment of principal of at stated legal maturity is, in the judgment of the Collateral Manager, dependent upon an irrevocable letter of credit or other similar instrument undertaken by a national banking association organized under United States law or a banking corporation organized under the laws of a state of the United States, *provided* that any Asset-Backed Security falling within this definition will be excluded from the definition of each other Specified Type of Asset-Backed Security.

"Benchmark Rate" means, with respect to a Collateral Debt Security that does 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 Security, 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 Average Life of such Collateral Debt Security on such date of acquisition.

"Bespoke CDO Securities" means single-tranche Synthetic CDO Securities that reference static portfolios where the Collateral Manager determines the composition of such portfolios.

“Black Box CDO Securities” means Bespoke CDO Securities that reference static portfolios, the specific composition of which is unavailable to investors.

“Calculation Amount” means, with respect to any Collateral Debt Security at any time, that (i) is a Defaulted Security, (ii) has a Moody’s Rating of below “Caa3” or (iii) was received upon acceptance of an Offer under the circumstances described in clause (a) of the definition of “Principal Balance”, the lesser of (a) the Fair Market Value of such Collateral Debt Security and (b) the amount obtained by multiplying the Applicable Recovery Rate with respect to such Collateral Debt Security by the Principal Balance of such Collateral Debt Security; *provided, however*, that the Calculation Amount for any Collateral Debt Security that has been a Defaulted Security for more than three consecutive years shall be zero.

“Calculation Period” means, with respect to any Monthly Distribution Date, (i) in the case of the initial Calculation Period, the period from, and including, the Closing Date to, but excluding, the first Monthly Distribution Date and (ii) thereafter, the period from, and including, the Distribution Date immediately following the last day of the immediately preceding Calculation Period to, but excluding, the next succeeding Distribution Date.

“Cap Corridor RMBS Securities” means RMBS Securities secured by 30-year, fixed rate, residential mortgage loans and hedged with an interest rate cap corridor within the RMBS structure.

“Car Rental Receivable Securities” means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from leases and subleases of vehicles to car rental systems (such as Hertz, Avis, National, Dollar, Budget, *etc.*) and their franchisees, generally having the following characteristics: (1) the leases and subleases have varying contractual maturities; (2) the subleases are obligations of numerous franchisees and accordingly represent a very diversified pool of obligor credit risk; (3) the repayment stream on such leases and subleases is primarily determined by a contractual payment schedule, with early termination of such leases and subleases predominantly dependent upon the disposition to a lessee or third party of the underlying vehicle; and (4) such leases or subleases typically provide for the right of the lessee or sublessee to purchase the vehicle for its stated residual value, subject to payments at the end of lease term for excess mileage or use.

“Catastrophe Bonds” means Asset-Backed Securities that entitle the holders thereof to receive a fixed principal or similar amount and a specified return on such amount, generally having the following characteristics: (1) the issuer of such Asset-Backed Security has entered into a swap, insurance contract or similar arrangement with a counterparty pursuant to which such issuer agrees to pay amounts to the counterparty upon the occurrence of certain specified events, including but not limited to: hurricanes, earthquakes and other events; and (2) payments on such Asset-Backed Security depend primarily upon the occurrence and/or severity of such events.

“CBO Securities” means debt securities the terms of which permit the underlying portfolio to consist predominantly of corporate loans or debt securities.

“CDO Securities” means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from a portfolio (each such portfolio, an “Underlying Portfolio”) of (A) other Asset-Backed Securities (other than loans secured primarily by commercial real estate), or (B) Synthetic Securities the reference obligations of which are Asset-Backed Securities (other than loans secured primarily by commercial real estate) generally having the following characteristics: (1) the debt securities have varying contractual maturities; (2) repayment thereof can vary substantially from the contractual payment schedule (if any), with early prepayment of debt 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 securities include an effective prepayment premium; and (3) proceeds from such repayments can for a limited period and subject to compliance with certain eligibility criteria be reinvested in additional debt securities; *provided* that a CRE CDO Security will not be considered a CDO Security. For purposes of the Investment Criteria, CDO Securities will (x) exclude (i) CBO Securities, (ii) CLO Securities, (iii) CDO Squared Securities, (iv) Trust Preferred CDO Securities, (v) Market Value CDO Securities, (vi) Emerging Market CDO Securities, (vii) Hedge Fund CDO Securities, (viii) Private Equity CDO Securities, (ix) Black Box CDO Securities and (x) Bespoke CDO Securities and (y) include Synthetic CDO Securities.

“CDO Squared Securities” means CDO Securities the terms of which permit the underlying portfolio to consist predominantly of CDO Securities.

“Class A-1 Note Excess” means, with respect to any date of determination, the amount, if any, by which (a) the sum of (i) the Aggregate Commitment Amount *plus* (ii) amounts standing to the credit of the Interest Collection Account (to the extent of Interest Shortfalls), amounts standing to the credit of the Principal Collection Account and the Reserve Account exceeds (b) the Total Exposure of all CDS Agreement Transactions.

“Class A-1 Note Funding Event” means an event that shall be deemed to occur with respect to any Class A-1 Noteholder at any time prior to the Commitment Termination Date if (i) an Event of Default under the Class A-1 Note Purchase Agreement occurs whereby such Class A-1 Noteholder is the defaulting party; or (ii) such Class A-1 Noteholder does not satisfy the definition of “Eligible Assignee” and fails, within 10 Business Days, to (1) transfer pursuant to all of its rights and obligations under the Class A-1 Note Purchase Agreement in respect of its Class A-1 Notes and its Commitment Amount to a person that is an Eligible Assignee on the date of such assignment, (2) obtain a guarantor (pursuant to a form of guarantee that satisfies all applicable then-current rating criteria of the Rating Agencies) for such Class A-1 Noteholder’s (or, in the case of a Class A-1 Noteholder that is a commercial paper conduit, its external liquidity or credit support provider’s) obligations under this Class A-1 Note Purchase Agreement that satisfies the VFN Ratings Criteria, or (3) enter into such other arrangements as shall satisfy the Rating Condition.

“Class A-1 Note Funding Termination Date” means, for any Class A-1 Noteholder with respect to which a Class A-1 Note Funding Event has occurred, (a) the Business Day after the Commitment Termination Date has occurred, (b) if the Class A-1 Note Funding Event has occurred as a result of clause (ii) of such definition, the first Business Day on which such Class A-1 Noteholder satisfies the VFN Ratings Criteria (including, where applicable, as a result of a permitted assignment and transfer of the Class A-1 Notes beneficially owned by such Class A-1 Noteholder) and the Trustee and the Collateral Manager have received notice from such Class A-1 Noteholder that it satisfies the VFN Ratings Criteria or (c) if the Class A-1 Note Funding Event has occurred as a result of clause (i) of such definition and such Class A-1 Noteholder satisfies the VFN Ratings Criteria, the first Business Day after the Event of Default under the Class A-1 Note Purchase Agreement that resulted in a Class A-1 Note Funding Event has been cured, if such Event of Default is capable of being cured.

“Class Scenario Default Rate” means, with respect to any Class of Notes rated by Standard & Poor’s, at any time, 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.

“CLO Securities” means a debt security that entitles the holder thereof to receive payments that depend primarily on the cashflow from a portfolio, the aggregate principal balance of which consists of at least 70% of commercial and industrial bank loans (subject to specified investment and management criteria), that is issued by an entity formed for the purpose of holding or investing or reinvesting in such loans and that by its terms converts into cash within a finite time period.

“CMBS Conduit Securities” means Asset-Backed Securities (i) (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 10 commercial mortgage loans account for more than 75% of the aggregate principal balance of the entire pool of commercial mortgage loans supporting payments on such securities and such pool contains at least 50 such loans; 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 or (ii) backed by a pool of securities where at least 80% of the aggregate principal balance of the underlying pool consists of securities described in (i) above.

“CMBS Credit Tenant Lease Securities” means Asset-Backed Securities (other than CMBS Large Loan Securities, CMBS Single Property Securities and CMBS Conduit Securities) that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from a pool of commercial mortgage loans made to finance the acquisition, construction and improvement of properties leased to corporate tenants (or on the cash flow from such leases). They generally have the following characteristics: (1) the commercial mortgage loans or leases have varying contractual maturities; (2) the commercial mortgage loans are secured by real property purchased or improved with the proceeds thereof (or to refinance an outstanding loan the proceeds of which were so used); (3) the leases are secured by leasehold interests; (4) the commercial mortgage loans or leases are obligations of a relatively limited number of obligors and accordingly represent a relatively undiversified pool of obligor credit risk; (5) payment thereof can vary substantially from the contractual payment schedule (if any), with prepayment of individual loans or termination of leases depending on numerous factors specific to the particular obligors or lessees and upon whether, in the case of loans bearing interest at a fixed rate, such loans include an effective prepayment premium; and (6) the creditworthiness of such corporate tenants is the primary factor in any decision to invest in these securities.

“CMBS Large Loan Securities” means Asset-Backed Securities (other than CMBS Conduit Securities, CMBS Credit Tenant Lease Securities and CMBS Single Property Securities) that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from a pool of commercial mortgage loans made to finance the acquisition, construction and improvement of properties. They generally have the following characteristics: (1) the commercial mortgage loans have varying contractual maturities; (2) the commercial mortgage loans are secured by real property purchased or improved with the proceeds thereof (or to refinance an outstanding loan the proceeds of which were so used); (3) the commercial mortgage loans are obligations of a relatively limited number of obligors and accordingly represent a relatively undiversified pool of obligor credit risk; (4) repayment thereof can vary substantially from the contractual payment schedule (if any), with early prepayment of individual loans depending on numerous factors specific to the particular obligors and upon whether, in the case of loans bearing interest at a fixed rate, such loans or securities include an effective prepayment premium; and (5) the valuation of individual properties securing the commercial mortgage loans is the primary factor in any decision to invest in these securities.

“CMBS Securities” means CMBS Conduit Securities, CMBS Credit Tenant Lease Securities, CMBS Large Loan Securities (including CMBS Single Property Securities), CRE CDO Securities and any 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 loans secured primarily by commercial real estate.

“CMBS Single Property Securities” means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from one or more commercial mortgage loans made to finance the acquisition, construction and improvement of a single property. They generally have the following characteristics: (1) the commercial mortgage loans have varying contractual maturities; (2) the commercial mortgage loans are secured by real property purchased or improved with the proceeds thereof (or to refinance an outstanding loan the proceeds of which were so used); (3) the commercial mortgage loans or leases are obligations of a relatively limited number of obligors and accordingly represent a relatively undiversified pool of obligor credit risk; and (4) payment thereof can vary substantially from the contractual payment schedule (if any), with prepayment of individual loans or termination of leases depending on numerous factors specific to the particular obligors or lessees and upon whether, in the case of loans bearing interest at a fixed rate, such loans include an effective prepayment premium.

“Collateral Debt Security” means (i) an Asset-Backed Security, a REIT Debt Security, a Mortgage Finance Company Security or a Synthetic Security that, in each case, satisfies each of the Investment Criteria when purchased by the Issuer, (ii) any Deliverable Obligations and (iii) any Synthetic Security Collateral that satisfies the

Investment Criteria below as to which the lien of the Synthetic Security Counterparty has been released following the termination of the Synthetic Security.

“Collateral Manager Estimate” means for purposes of clause (b)(i)(B) of the definition of “Rating”, a rating estimate proposed by the Collateral Manager for any obligation; *provided* that a Collateral Manager Estimate shall not be permitted with respect to any obligation (i) except during the period ending 90 days from the date of acquisition of such obligation by the Issuer and (ii) information with respect to the obligation must be provided to Standard & Poor’s prior to the acquisition of the obligation. After the expiration of the 90-day period set forth in clause (i), the rating of such obligation shall be (x) the initial rating assigned by the Collateral Manager if a Standard & Poor’s credit estimate is not received but sufficient information is provided to Standard & Poor’s on or prior to the acquisition of the obligation or (x) “NR” if insufficient information with respect to the obligation was provided to Standard & Poor’s.

“Commitment Amount” means, for any Class A-1 Noteholder and any date, an amount (not less than zero) equal to the sum of (i) the amount specified as the “Commitment Amount” on the signature page of the Class A-1 Note Purchase Agreement or otherwise in an assignment and acceptance pursuant to which such Class A-1 Noteholder shall become a party to the Class A-1 Note Purchase Agreement in accordance with the terms thereof *plus* (ii) the Commitment Amount (or portion thereof) of any other Class A-1 Noteholder acquired by such Noteholder pursuant to the terms of the Class A-1 Note Purchase Agreement on or prior to such date *minus* (iii) the Commitment Amount (or portion thereof) of such Class A-1 Noteholder assigned by such Noteholder pursuant to the terms of the Class A-1 Note Purchase Agreement on or prior to such date *minus* (iv) the aggregate amount of all reductions of such Class A-1 Noteholder’s “Commitment Amount” pursuant to the terms of the Class A-1 Note Purchase Agreement and the Indenture.

“Compliant Class A-1 Noteholder” means (a) a Class A-1 Noteholder with respect to which a Class A-1 Note Funding Event has not occurred or (b) a Class A-1 Noteholder with respect to which a Class A-1 Note Funding Event has occurred if a Class A-1 Note Funding Termination Date has also occurred in respect of such Class A-1 Note Funding Event.

“Controlling Class” means, (a) so long as the Aggregate Outstanding Amount of Class A-1 Notes or the Remaining Unfunded Class A-1 Commitment Amount is greater than zero, the Class A-1 Notes; and (b) otherwise, the most Senior Class of Notes outstanding.

“CRE CDO Securities” means collateralized debt obligations, collateralized bond obligations or collateralized loan obligations (including, without limitation, any synthetic collateralized debt obligations or synthetic collateralized loan obligations) 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 such CRE CDO Securities) on the cash flow from (and not the market value of) a portfolio of securities related to commercial mortgage property.

“Credit Card Securities” means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from balances outstanding under prime 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 Event Notice” means an irrevocable written notice from the protection buyer to the protection seller 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 or any other security included in the Collateral that the Collateral Manager believes, based on its commercially reasonable business judgment, has significantly

improved in credit quality or (1) that has been upgraded or put on a watch list for possible upgrade by one or more rating subcategories by one or more Rating Agencies since it was acquired by the Issuer, (2) as to which the Collateral Manager believes that the issuer thereof has, since such Collateral Debt Security was purchased by the Issuer, either (a) shown significantly improved financial results or (b) raised a substantial amount of equity, or (3) that has increased in price to 102% or more of its original purchase price paid therefor by the Issuer (or, in the case of a Synthetic Security, 102% or more of the original fair market value of the Reference Obligation), since the date on which such Collateral Debt Security was acquired; *provided* that, if at any time, Moody's has reduced its long-term ratings on any of the Class A Notes or Class B Notes by one or more subcategories or reduced its long-term ratings on any of the Class C Notes, Class D Notes, Class E Notes or Class F Notes by two or more subcategories, in each case, below the ratings assigned to such Class on the Closing Date or has withdrawn its long-term ratings on any Class of Senior Notes, then a Collateral Debt Security shall not be considered a Credit Improved Security unless it satisfies the criteria set forth in clause (1) or (3) of this definition.

"Credit Risk Security" means any Collateral Debt Security or any other security included in the Collateral that satisfies any of the following:

- (a) if Moody's has not withdrawn or reduced its long-term ratings on any of the Class A Notes or Class B Notes by one or more subcategories or reduced its long-term ratings on any of the Class C Notes, Class D Notes, Class E Notes or Class F Notes by two or more subcategories below the ratings in effect on the Closing Date (disregarding any withdrawal or reduction if subsequent thereto Moody's has upgraded any such reduced or withdrawn ratings of the Notes, as applicable, to at least their initial long-term rating), the Collateral Manager believes (as of the date of the Collateral Manager's determination based upon currently available information reasonably available to the Collateral Manager) that such Collateral Debt Security has a significant risk of declining in credit quality and, with lapse of time, becoming a Defaulted Security,
- (b) if (i) such Collateral Debt Security is publicly rated by Moody's at any time when Moody's has withdrawn or reduced its long-term ratings on any of the Class A Notes or Class B Notes by one or more subcategories or reduced its long-term ratings on any of the Class C Notes, Class D Notes, Class E Notes or Class F Notes by two or more subcategories below the ratings in effect on the Closing Date (disregarding any withdrawal or reduction if subsequent thereto Moody's has upgraded any such reduced or withdrawn ratings of the Notes, as applicable, to at least their initial long-term rating), such Collateral Debt Security has been downgraded or put on a watch list for possible downgrade by Moody's by one or more rating subcategories since it was acquired by the Issuer, or (ii) such Collateral Debt Security (or if such Collateral Debt Security is a Synthetic Security, the related Reference Obligation) is not publicly rated by Moody's, the credit spread with respect to such Credit Risk Security has increased over the applicable Benchmark Rate, the applicable swap benchmark or the applicable LIBOR by (x) 0.50% or more if the original credit spread (as of the date on which such Collateral Debt Security was first acquired) was greater than 0.50% or (y) 0.25% if the original credit spread (as of the date on which such Collateral Debt Security was first acquired) was less than or equal to 0.50%, or
- (c) at any time, such Collateral Debt Security is a Written-Down-Security.

"Current Portfolio" means the portfolio (measured by Principal Balance) of (a) Collateral Debt Securities, (b) Principal Proceeds held as cash, (c) Eligible Investments purchased with Principal Proceeds and (d) the Excess Notional Amount Liquidity existing immediately prior to the sale, maturity or other disposition of a Collateral Debt Security or immediately prior to the proposed acquisition of a Collateral Debt Security, as the case may be.

"Current Spread" means, as of any date of determination, (i) with respect to any Collateral Debt Security which is a Floating Rate Collateral Debt Security (other than a Synthetic Security), the stated spread above LIBOR at which interest accrues on such Floating Rate Collateral Debt Security and (ii) with respect to any Collateral Debt Security which is a Deemed Floating Rate Collateral Debt Security, the Deemed Floating Rate *plus* the Deemed Floating Spread, each related to such Deemed Floating Rate Collateral Debt Security; *provided* that the Current Spread of a Non-Libor Floating Rate Collateral Debt Security shall be calculated net of LIBOR; *provided, further* that the Current Spread of a Step-Up Security or a Step-Down Security shall be the interest rate or the spread over the applicable index or benchmark as of the date of determination.

“Deemed Floating Asset Hedge Agreement” means, with respect to a Fixed Rate Collateral Debt Security, an interest rate swap having a Notional Amount (or scheduled Notional Amounts) equal to the Principal Balance (as it may be reduced by expected amortization) of such Fixed Rate Collateral Debt Security; *provided* that (a) at the time of entry into a Deemed Floating Asset Hedge Agreement, (i) the Notional Amount of such Deemed Floating Asset Hedge Agreement is equal to the expected principal amount of the related Fixed Rate Collateral Debt Security (as calculated at such time), (ii) the Asset Hedge Counterparty satisfies the Hedge Counterparty Ratings Requirement, (b) the Rating Agencies and the Trustee are notified prior to the Issuer’s entry into a Deemed Floating Asset Hedge Agreement, and will be provided with the identity of the relevant Asset Hedge Counterparty and copies of the hedge documentation and notional schedule, (c) the hedge documentation (including the applicable master agreement, confirmation and schedule attached thereto) either (i) is a Form-Approved Asset Hedge Agreement or (ii) satisfies the Rating Condition, (d) the amortization schedule of such Deemed Floating Asset Hedge Agreement must match the anticipated amortization schedule of the related Fixed Rate Collateral Debt Security, (e) the Deemed Floating Asset Hedge Agreement must terminate on the maturity date of the related Fixed Rate Collateral Debt Security, (f) the payment date under such Deemed Floating Asset Hedge Agreement must either match the payment date of the related Fixed Rate Collateral Debt Security or match a Distribution Date, (h) the related Fixed Rate Collateral Debt Security under the Deemed Asset Hedge Agreement must be assigned a recovery rate by Standard & Poor’s and (i) such Deemed Floating Asset Hedge Agreement is priced at then-current market rates; *provided, further* that the agreement relating to such Deemed Floating Asset Hedge Agreement contains “non petition” provisions with respect to the Issuer and “limited recourse” provisions limiting the Asset Hedge Counterparty’s rights in respect of the Fixed Rate Collateral Debt Security to the funds and other property credited to the Asset Hedge Account related to such Fixed Rate Collateral Debt Security.

“Deemed Floating Rate” means, with respect to any Deemed Floating Rate Asset Hedge Agreement, the floating rate in excess of LIBOR that the Asset Hedge Counterparty agrees to pay on such Deemed Floating Rate Asset Hedge Agreement at the time such hedge is executed.

“Deemed Floating Rate Collateral Debt Security” means a Fixed Rate Collateral Debt Security or a Hybrid Security that is currently paying interest at a fixed rate, in each case, the interest rate of which is hedged into a Floating Rate Collateral Debt Security using a Deemed Floating Asset Hedge Agreement; *provided* that, if applicable to the relevant Collateral Debt Security, at the time of entry into a Deemed Floating Asset Hedge Agreement, (x) the average life of such Deemed Floating Rate Collateral Debt Security would not increase or decrease by more than one year from its expected average life if it were to prepay at either 50% or 150% of the average rate of prepayment during the period of six consecutive months immediately preceding the current month (or in the case of newly issued securities, its pricing speed) and (y) such Deemed Floating Rate Collateral Debt Security is rated at least “A3” by Moody’s (and, if rated “A3” by Moody’s, such Collateral Debt Security has not been placed on a watch list for possible downgrade), at least “BBB-” by Standard & Poor’s or at least “BBB-” by Fitch.

“Deemed Floating Spread” means the difference between the stated rate at which interest accrues on each Fixed Rate Collateral Debt Security that comprises a Deemed Floating Rate Collateral Debt Security (excluding all Defaulted Securities) and the related Fixed Payment Rate.

“Defaulted Hedge Termination Payments” means any termination payment required to be made by the Issuer to a Hedge Counterparty pursuant to a Hedge Agreement by reason of an “Event of Default” or “Termination Event” as to which the Hedge Counterparty is the “Defaulting Party” or the sole “Affected Party” (each, as defined in the relevant Hedge Agreement).

“Defaulted Interest” means with respect to the Notes, any interest or Commitment Fee due and payable in respect of any Note which is not punctually paid or duly provided for on the applicable Distribution Date or at Stated Maturity and which remains unpaid. Defaulted Interest will not include Class C Deferred Interest, Class D Deferred Interest, Class E Deferred Interest or Class F Deferred Interest.

“Defaulted Security” means any Collateral Debt Security or any other security included in the Collateral:

- (a) with respect to which there has occurred and is continuing a payment default thereunder (without giving effect to any applicable grace period or waiver); *provided* that (x) a payment default of up to five

Business Days with respect to which the Collateral Manager certifies in writing to the Trustee, in its judgment is due to non-credit and non-fraud related reasons shall not cause a Collateral Debt Security to be classified as a Defaulted Security and (y) no Collateral Debt Security shall be a Defaulted Security if all payments of principal and interest due thereon (including deferred interest and Defaulted Interest and any interest due thereon) have been paid in full in cash;

(b) with respect to which there has occurred a default (other than any payment default) which entitles the holders thereof, with the giving of notice or passage of time or both, to accelerate the maturity of all or a portion of the principal amount of such obligation, and such default has not been cured or waived;

(c) as to which a bankruptcy, insolvency, or receivership proceeding has been initiated with respect to the issuer of such Collateral Debt Security, or there has been proposed or effected any distressed exchange or other debt restructuring where the issuer of such Collateral Debt Security has offered the holders thereof a new security or package of securities that, in the judgment of the Collateral Manager, either (a) amounts to a diminished financial obligation or (b) has the purpose of helping the borrower to avoid default, *provided* that a security that was acquired in exchange for a Collateral Debt Security in connection with a distressed exchange or other debt restructuring shall not constitute a “Defaulted Security” if it satisfies the requirements of the definition of a “Collateral Debt Security” including the Investment Criteria at the time it is acquired and has paid and is currently paying scheduled interest and principal;

(d) as to which the Collateral Manager knows the issuer thereof is (or is reasonably expected by the Collateral Manager to be, as of the next scheduled payment distribution date) 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 default has not been cured or waived) which is senior to or *pari passu* in right of payment to, and (in the case of Asset-Backed Securities only) is secured by the same collateral as, such Collateral Debt Security, except that a Collateral Debt Security shall not constitute a “Defaulted Security” under this clause (4) if the Collateral Manager, in its judgment, determines that on the next scheduled payment distribution date of such Collateral Debt Security such issuer will make payments required to be made on such Collateral Debt Security on such date and the Rating Condition with respect to Standard & Poor’s is satisfied in respect of such determination;

(e) that is received upon acceptance of an Offer for another Collateral Debt Security which Offer expressly stated that failure to accept such Offer might result in a default under the related Underlying Instruments and with respect to which no payment of interest or principal has yet been received;

(f) that (x) has a Moody’s Rating of “Ca” or “C”, (y) is rated “CC”, “D” or “SD” by Standard & Poor’s or was rated “CC”, “D” or “SD” by Standard & Poor’s prior to having its rating withdrawn or (z) has a Fitch Rating of “CC” or below as determined by reference to a public rating in accordance with the rules set forth in the definition of “Fitch Rating” or was rated “CC” or below by Fitch prior to having its rating withdrawn;

(g) that is a Defaulted Synthetic Security;

(h) that is a Synthetic Security (other than a Defaulted Synthetic Security) with respect to which there is a Synthetic Security Counterparty Defaulted Obligation; or

(i) that is a debt obligation delivered to the Issuer upon the occurrence of a “credit event” under a Synthetic Security that is not a Deliverable Obligation;

provided that, in respect of any Collateral Debt Security that constitutes a Defaulted Security pursuant to subclause (x), (y) or (z) of clause (6) above only, such Collateral Debt Security shall not be treated as a Defaulted Security other than for purposes of calculating the Net Outstanding Portfolio Collateral Balance so long as (i) such Collateral Debt Security is not a PIK Bond with respect to which any principal has been deferred and capitalized, (ii) interest in respect of such Collateral Debt Security was paid in full on the immediately preceding payment date for such Collateral Debt Security and (iii) the Collateral Manager believes in the exercise of its judgment that the interest in respect of such Collateral Debt Security will be paid in full on the next payment date for such Collateral Debt Security.

The Collateral Manager shall be deemed to have knowledge of all information received by it that is delivered to it in accordance with the Indenture, and shall be responsible under the Collateral Management Agreement (to the extent provided therein) for obtaining and reviewing information available to it in its capacity as a collateral manager of national standing (except to the extent any such information has been withheld from the Collateral Manager by the Trustee or the Issuer). Notwithstanding the foregoing, the Collateral Manager may declare any Collateral Debt Security to be a Defaulted Security if, in the Collateral Manager's judgment, the credit quality of the issuer of such Collateral Debt Security has significantly deteriorated such that there is a reasonable expectation of payment default as of the next due date.

Nothing in this definition of "Defaulted Security" will be deemed to require any employees (including any portfolio manager or credit analyst) of the Collateral Manager to obtain, use or share with or otherwise distribute to any other person (a) any information that they 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 Synthetic Security referencing a Reference Obligation that would, if such Reference Obligation were a Collateral Debt Security, constitute a "Defaulted Security" under paragraphs (1), (2), (3), (4), (5) or (6) of the definition thereof above.

"Defaulted Synthetic Termination Payment" means, with respect to any Synthetic Security any termination payment (and any accrued interest thereon) payable by the Issuer pursuant to the Underlying Instruments relating thereto (including, if applicable, the Credit Default Swap Agreement) as a result of an "Event of Default" or "Termination 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).

"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 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" (each, as defined in the ISDA Master Agreement relating to such Synthetic Security) (x) the Issuer may terminate its obligations under such Synthetic Security and, upon such termination, any lien in favor of the Synthetic Security Counterparty over its related Synthetic Security Counterparty Account will be terminated and (y) the Issuer will no longer be obligated to make any payments to the Synthetic Security Counterparty with respect to such Synthetic Security.

"Deferred Interest Notes" means the Class C Notes, the Class D Notes, the Class E Notes and the Class F Notes.

"Deferred Notes Principal" means, (a) with respect to any Determination Date occurring prior to the Determination Date relating to the last day of the Reinvestment Period, the sum of (i) the amount added to the principal of the Deferred Interest Notes as of the Determination Date relating to the preceding Distribution Date that was not paid to Noteholders in respect of principal under "Priority of Payments—Interest Proceeds" or paragraphs (1) through (4)(a)(II) (inclusive) under "Priority of Payments—Principal Proceeds" on such preceding Distribution Date (or, in the case of the first Determination Date, zero) plus (ii) the excess (if any) of (A) the Note Reduction Amount for the Due Period relating to the preceding Distribution Date over (B) the amount of Principal Proceeds paid to Noteholders in respect of principal under "Priority of Payments—Interest Proceeds" or paragraphs (1) through (4)(a)(III) (inclusive) under "Priority of Payments—Principal Proceeds" on such preceding Distribution Date and (b) with respect to any Determination Date occurring on or after the Determination Date relating to the last day of the Reinvestment Period, the sum of (i) the amount added to the principal of the Deferred Interest Notes as of the Determination Date relating to the preceding Distribution Date that was not paid to Noteholders in respect of principal under "Priority of Payments—Interest Proceeds" or paragraphs (1) through (5)(a)(II) (inclusive) under "Priority of Payments—Principal Proceeds" on such preceding Distribution Date plus

(ii) the excess (if any) of (A) the Note Reduction Amount for the Due Period relating to the preceding Distribution Date over (B) the amount of Principal Proceeds paid to Noteholders in respect of principal under “Priority of Payments—Interest Proceeds” or paragraphs (1) through (5)(a)(III) (inclusive) under “Priority of Payments—Principal Proceeds” on such preceding Distribution Date.

“Deliverable Obligation” means a debt obligation that may be or is delivered to the Issuer upon the occurrence of a “credit event” under a Synthetic Security that (a) satisfies the criteria set forth in paragraphs (1) through (3), (5) through (15) of the Eligibility Criteria and paragraphs (a) through (d), (f) through (j), (l) through (p) and (s) through (x) of the Concentration Limitations at the time such debt obligation is delivered or (b) satisfies the criteria set forth in paragraphs (6) through (8) of the Eligibility Criteria at the time such debt obligation is delivered and the Rating Condition; *provided* that the criteria set forth in paragraphs (l) and (m) of the Concentration Limitations need not be satisfied with respect to a Deliverable Obligation delivered to the Issuer pursuant to the terms of a Synthetic Security.

“Determination Date” means the last day of a Due Period.

“Discount Security” means either (a) a Collateral Debt Security (other than a Synthetic Security) purchased at a purchase price (exclusive of accrued interest), or (b) a Synthetic Security meeting the Synthetic Security Discount Criteria where the Assigned Value applicable to the related Reference Obligation is (i) if such Collateral Debt Security or Reference Obligation is a Floating Rate Security, if such Floating Rate Security has a Moody’s Rating of “Aaa”, “Aa1”, “Aa2” or “Aa3” or a Standard & Poor’s Rating of “AAA”, “AA+”, “AA”, or “AA-”, is less than 92% of the par amount thereof, (ii) if such Collateral Debt Security or Reference Obligation is a Fixed Rate Security, if such Fixed Rate Security has a Moody’s Rating of “Aaa”, “Aa1”, “Aa2” or “Aa3” or a Standard & Poor’s Rating of “AAA”, “AA+”, “AA”, or “AA-”, less than 85% of the par amount thereof or (iii) if such Collateral Debt Security has a Moody’s Rating of “A1” or below and a Standard & Poor’s Rating of “A+” or below, of less than 75% of the par amount thereof; *provided*, that the Aggregate Principal Balance of such Collateral Debt Securities and Reference Obligations may not exceed 5% of the Net Outstanding Portfolio Collateral Balance; and *provided further* that (A) any such Floating Rate Security if such Floating Rate Security has a Moody’s Rating of “Aaa”, “Aa1”, “Aa2” or “Aa3” or a Standard & Poor’s Rating of “AAA”, “AA+”, “AA” or “AA-” the fair market value of which equals or exceeds 95% of its principal balance for a period of 60 consecutive Business Days shall no longer be considered a “Discount Security” and (B) any such Fixed Rate Security (1) if such Fixed Rate Security has a Moody’s Rating of “Aaa”, “Aa1”, “Aa2” or “Aa3” or a Standard & Poor’s Rating of “AAA”, “AA+”, “AA” or “AA-” the fair market value of which equals or exceeds 90% of its principal balance for a period of 60 consecutive Business Days or (2) if such Fixed Rate Security has a Moody’s Rating of “A1” or below and a Standard & Poor’s Rating of “A+” or below the fair market value of which equals or exceeds 85% of its principal balance for a period of 60 consecutive Business Days shall no longer be considered a “Discount Security”.

“Discount Security Haircut Amount” means, with respect to any Collateral Debt Security that is a Discount Security (other than a Synthetic Security), an amount equal to (i) the current Principal Balance of such Discount Security multiplied by (ii) a fraction (A) the numerator of which is the Principal Balance of such Discount Security at the time of purchase minus the purchase price (exclusive of accrued interest) of such Discount Security and (B) the denominator of which is the Principal Balance of such Discount Security at the time of purchase.

“Distribution Date” means any Monthly Distribution Date or Quarterly Distribution Date, as the context may require. For the avoidance of doubt, references herein to a Quarterly Distribution Date shall be deemed to include the Monthly Distribution Date occurring on the same date as such Quarterly Distribution Date, and references herein to a Monthly Distribution Date occurring in the months of March, June, September and December of each year shall be deemed to include the Quarterly Distribution Dates occurring on the same date as such Monthly Distribution Date.

“Due Period” means, with respect to any Distribution Date, the period commencing on the day immediately following the fourth Business Day prior to the immediately preceding Distribution Date (or on the Closing Date, in the case of the Due Period relating to the first Distribution Date) and ending on the fourth Business Day prior to such Distribution Date, except that, in the case of the Due Period that is applicable to the Monthly Distribution Date relating to the Stated Maturity of the Notes, such Due Period shall end on the day preceding the Stated Maturity; *provided* that payments received from any Hedge Counterparty on or prior to such Distribution Date shall be deemed to have been received during such Due Period.

“EETC Security” means an enhanced equipment trust certificate.

“Eligible Assignee” means any person that satisfies the VFN Ratings Criteria and is either (i) a Qualified Purchaser that is also a Qualified Institutional Buyer or (ii) a person that is not a “U.S. person” (as defined in Regulation S under the Securities Act) acquiring its interest in such Class A-1 Note in an offshore transaction as set forth in Rule 903 or 904 of Regulation S under the Securities Act.

“Eligible Investments” means any Dollar-denominated investment that is one or more of the following (and may include investments for which the Trustee and/or its Affiliates provides services or receives compensation):

- (a) cash;
- (b) direct Registered obligations of, and Registered obligations the timely payment of principal and interest on which is fully and expressly guaranteed by, the United States or any agency or instrumentality of the United States the obligations of which are expressly backed by the full faith and credit of the United States;
- (c) demand and time deposits in, certificates of deposit of, bankers’ acceptances payable within 183 days of issuance issued by, or Federal funds sold by any depository institution or trust company incorporated under the laws of the United States or any state thereof and subject to supervision and examination by Federal and/or state banking authorities so long as the commercial paper and/or the debt obligations of such depository institution or trust company (or, in the case of the principal depository institution in a holding company system, the commercial paper or debt obligations of such holding company) at the time of such investment or contractual commitment providing for such investment have a credit rating of “AAA” by Standard & Poor’s and not less than “Aa2” by Moody’s (and, if such rating is “Aa2”, such rating is not on watch for possible downgrade by Moody’s) and not less than “AA+” by Fitch in the case of long-term debt obligations, or “P-1” by Moody’s (and such rating is not on watch for possible downgrade by Moody’s), “A-1+” by Standard & Poor’s (or “A-1” with respect to overnight time deposits offered by LaSalle Bank National Association) and “F1+” by Fitch in the case of commercial paper and short-term debt obligations; *provided* that in the case of commercial paper and short-term debt obligations with a maturity of longer than 91 days, the issuer thereof must also have at the time of such investment a long-term credit rating of not less than “AAA” by Standard & Poor’s and not less than “AA+” by Fitch;
- (d) unleveraged repurchase obligations with respect to (i) any security described in clause (b) above or (ii) any other Registered security 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), “AAA” by Standard & Poor’s and not less than “AA+” by Fitch or whose short-term credit rating is “P-1” by Moody’s (and such rating is not on watch for possible downgrade by Moody’s), “A-1+” by Standard & Poor’s and “F1+” by Fitch at the time of such investment; *provided* that (i) in each case, the issuer thereof must have at the time of such investment a long-term credit rating of not less than “Aa2” by Moody’s (and, if such rating is “Aa2”, such rating is not on watch for possible downgrade by Moody’s) and (ii) if such security has a maturity of longer than 91 days, the issuer thereof must also have at the time of such investment a long-term credit rating of “AAA” by Standard & Poor’s and not less than “AA+” by Fitch;
- (e) Registered debt securities bearing interest or sold at a discount issued by any corporation incorporated under the laws of the United States or any state thereof that have a credit rating of not less than “Aa2” by Moody’s (and, if such rating is “Aa2”, such rating is not on watch for possible downgrade by Moody’s), “AAA” by Standard & Poor’s and not less than “AA+” by Fitch;
- (f) commercial paper or other short-term obligations with a maturity of not more than 183 days from the date of issuance and having at the time of such investment a credit rating of “P-1” by Moody’s (and such rating is not on watch for possible downgrade by Moody’s), “A-1+” by Standard & Poor’s and “F1+” by Fitch; *provided* that (i) in each case, the issuer thereof must have at the time of such investment a long-term

credit rating of not less than “Aa2” by Moody’s (and, if such rating is “Aa2”, such rating is not on watch for possible downgrade by Moody’s), and (ii) if such security has a maturity of longer than 91 days, the issuer thereof must also have at the time of such investment a long-term credit rating of “AAA” by Standard & Poor’s and not less than “AA+” by Fitch;

(g) reinvestment agreements issued by any bank (if treated as a deposit by such bank), or a Registered reinvestment agreement issued by any insurance company or other corporation or entity organized under the laws of the United States or any state thereof, in each case, that has a credit rating of not less than “P-1” by Moody’s (and such rating is not on watch for possible downgrade by Moody’s), “A-1+” by Standard & Poor’s and “F1+” by Fitch; *provided* that (i) in each case, the issuer thereof must have at the time of such investment a long-term credit rating of not less than “Aa2” by Moody’s (and, if such rating is “Aa2”, such rating is not on watch for possible downgrade by Moody’s) and (ii) if such security has a maturity of longer than 91 days, the issuer thereof must also have at the time of such investment a long-term credit rating of “AAA” by Standard & Poor’s and not less than “AA+” by Fitch; and

(h) investments in any money market fund or similar investment vehicle having at the time of investment therein the highest credit rating assigned by each of the Rating Agencies (if rated by any such Rating Agency); *provided*, that either (i) such fund or vehicle is formed and has its principal office outside the United States or (ii) payments in respect of such fund or vehicle are not subject to any amount of deduction or withholding in respect of tax under section 871 and 881 of the Code, taking into account the American Jobs Creation Act of 2004 and any amendments promulgated hereafter;

and, in each case (other than clause (a)), (i) with a stated maturity (giving effect to any applicable grace period) no later than the Business Day immediately preceding the Distribution Date next following the Due Period in which the date of investment occurs and (ii) either shall be treated as indebtedness for U.S. federal income tax purposes that are not a United States real property interest as defined under Section 897 of the Code, or the Issuer has received advice from Cadwalader, Wickersham & Taft LLP or Clifford Chance US LLP, or an opinion of other nationally recognized U.S. tax counsel experienced in such matters to the effect that such investment shall not cause the Issuer to be treated as engaged in a trade or business in the United States for U.S. federal income tax purposes or otherwise subject the Issuer to U.S. federal income tax on a net income tax basis; *provided* that Eligible Investments may not include (i) any Interest Only Security, (ii) any security purchased at a price in excess of 100% of the par value thereof, (iii) any investment the income from which is or will be subject to deduction or withholding for or on account of any withholding or similar tax unless the payor is required to make “gross up” payments that 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 been required, (iv) any security whose repayment is subject to substantial non-credit related risk as determined in the sole judgment of the Collateral Manager, (v) any Asset-Backed Security, (vi) except with respect to investments described in clause (c), any Floating Rate Collateral Debt 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, (vii) any security that is the subject of an Offer or (viii) any security with a rating from Standard & Poor’s which includes the subscript “p”, “pi”, “q”, “r”, or “t”. Eligible Investments may be obligations of any of, and may be purchased from, the Trustee, the Collateral Manager and their respective Affiliates, and may include obligations for which the Trustee or an Affiliate thereof or the Collateral Manager or an Affiliate thereof receives compensation for providing services.

“Emerging Market CDO Securities” means CDO Securities the terms of which permit the Underlying Portfolio to consist predominantly of Emerging Market Securities.

“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, (y) obligations of Qualifying Foreign Obligors and/or (z) obligations of issuers of Asset-Backed Securities organized in a Special Purpose Vehicle Jurisdiction if the underlying collateral of such

Asset-Backed Securities consist solely of obligations of obligors located in the United States and obligations of Qualifying Foreign Obligor.

“Emerging Market Security” means an Asset-Backed Security the terms of which permit the underlying portfolio to consist of more than 50% of obligations issued by Emerging Market Issuers.

“Equipment Leasing Securities” means Asset-Backed Securities (other than Aircraft Leasing Securities, Healthcare Securities, Oil and Gas Securities and Restaurant and Food Services Securities) that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from leases and subleases of equipment (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 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.

“Excepted Security” means, for purposes of Part II of Schedule A, (a) cashflow structured finance obligations not rated by Standard & Poor’s the cash flow of which is primarily from non-U.S. sources, (b) collateralized bond obligations the underlying collateral of which consists primarily of collateralized debt obligations, (c) collateralized bond obligations the underlying collateral of which is distressed debt, (d) obligations secured by contingent deferred sales charges, asset-based sales charges, shareholder servicing fees and other similar fees associated with the marketing and distribution of interests in, and management and servicing of, mutual funds registered under the Investment Company Act, (e) Catastrophe Bonds, (f) the first loss tranche of any securitization, (g) synthetic obligations (other than those expressly provided for in the Indenture), (h) synthetic collateralized debt obligations (other than those expressly provided for in the Indenture), (i) combination securities, (j) Re-REMICs, (k) market value collateralized debt obligations, (l) net interest margin securities, (m) Project Finance Securities, (n) Interest Only Securities or (o) Structured Settlement Securities.

“Excess Notional Amount Liquidity” means, with respect to any date of determination, (a) the sum of (i) the Remaining Unfunded Class A-1 Commitment Amount as of such date *plus* (ii) the Reserve Account Balance as of such date, minus (b) the aggregate Remaining Exposure under all CDS Agreement Transactions as of such date.

“Excess Reserve Account Assets” means, at any time, the par value of that portion of Reserve Account Investments, application of which for any purpose permitted under the Indenture, would not cause the Excess Notional Amount Liquidity to be reduced below zero.

“Expected Interest Amount” means, with respect to any payment date under the Reference Obligation related to a CDS Agreement Transaction, the amount of current interest that would accrue during the related 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 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.

“Fair Market Value” means, in respect of any Defaulted Security or Discount Security at any time, (i) the average of three bona fide bids for such Collateral Debt Security obtained by the Collateral Manager at such time from any three nationally recognized dealers, which dealers are independent from one another and from the

Collateral Manager, or (ii) if the Collateral Manager is unable to obtain three such bids, the lesser of two bona fide bids for such Collateral Debt Security or Eligible Investment obtained by the Collateral Manager at such time from any two nationally recognized dealers acceptable to the Collateral Manager, which dealers are independent from one another and from the Collateral Manager, or (iii) if the Collateral Manager is unable to obtain two such bids, the bona fide bid for such Collateral Debt Security or Eligible Investment obtained by the Collateral Manager at such time from any nationally recognized dealer acceptable to the Collateral Manager, which dealer is independent from the Collateral Manager, or (iv) in the event the Collateral Manager is unable to obtain one such bid, the price on such date provided to the Collateral Manager by a nationally recognized pricing service reasonably selected by the Collateral Manager, or (v) in the event the Collateral Manager cannot in good faith determine the market value of such Collateral Debt Security or Eligible Investment using commercially reasonable efforts to apply the methods specified in clauses (i) through (iv) above, the Fair Market Value of such Collateral Debt Security shall be deemed to be the lesser of (x) the price on such date as determined in good faith by the Collateral Manager and (y) the Applicable Recovery Rate thereof; *provided* that the Fair Market Value of any Defaulted Security or Discount Security determined pursuant to clause (v) hereof that cannot be determined pursuant to clauses (i), (ii), (iii) or (iv) for a period of 30 consecutive days shall be deemed to be zero.

“FHLMC/FNMA Guaranteed Securities” means any Asset-Backed Security as to which the timely payment of interest when due, and the payment of principal no later than the stated legal maturity, is fully and unconditionally guaranteed by the Federal Home Loan Mortgage Corporation or the Federal National Mortgage Association but only if such guarantee (x) expires no earlier than such stated maturity and (y) is independent of the performance by the obligor on the relevant Asset-Backed Security; *provided* that any Asset-Backed Security falling within this definition will be excluded from the definition of each other type of Asset-Backed Security.

“Fitch” means Fitch, Inc., Fitch Ratings Ltd. and their subsidiaries, including Derivative Fitch, Inc. and Derivative Fitch Ltd., and successor or successors thereto.

“Fitch Rating” has the meaning set forth in Schedule E.

“Fixed Payment Rate” means, with respect to any Deemed Floating Asset Hedge Agreement, the fixed rate that the Issuer agrees to pay on such Deemed Floating Asset Hedge Agreement at the time such swap is executed.

“Fixed Rate Collateral Debt Security” means any Collateral Debt Security other than a Floating Rate Collateral Debt Security or Hybrid Security.

“Floating Amount Event” means a Writedown, a Failure to Pay Principal or Interest Shortfall.

“Floating Rate Collateral Debt Security” means any Collateral Debt Security other than a Hybrid Security or Synthetic Security (a) that is expressly stated to 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 or (b) the interest payments on which are derived primarily from underlying assets that bear interest based on a floating rate index.

“Floorplan Receivable Securities” means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) upon 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 Asset Hedge Agreement” means a Deemed Floating Asset Hedge Agreement with respect to which (a) the related Fixed Rate Collateral Debt Security could be purchased by the Issuer without any required

action by the Rating Agencies and (b) the documentation of which conforms in all respects other than changes relating to the identity, nature and jurisdiction of the counterparty and the economic terms of the relevant transaction to a form which each of the Rating Agencies has confirmed within 10 days in writing of their receipt thereof will not require satisfaction of the Rating Condition if it is used as the basis for a Deemed Floating Asset Hedge Agreement for purposes hereof; *provided* that (i) either Rating Agency may revoke its consent to the use of a Form-Approved Asset Hedge Agreement upon 30 days' prior written notice to the Trustee and the Collateral Manager (*provided* that such revocation shall not affect any existing Asset Hedge Agreement) and (ii) the Issuer shall provide the Rating Agencies with a copy of each Deemed Floating Asset Hedge Agreement entered into pursuant to any Form-Approved Asset Hedge Agreement promptly following the execution thereof.

"Form-Approved Synthetic Security" means a Synthetic Security (including a CDS Agreement Transaction) (a)(i) the Reference Obligation of which, if it were a Collateral Debt Security, could be purchased by the Issuer without satisfaction of the Rating Condition or with respect to which the Rating Condition has been satisfied or (ii) the Reference Obligation of which would satisfy clause (i) but for (x) the currency in which it is payable, and such Synthetic Security is payable in U.S. Dollars and does not expose the Issuer to currency risk or (y) the frequency of the scheduled periodic payments of interest on such Reference Obligation, (b) entered into pursuant to the Credit Default Swap Agreement or other documentation which conforms (but for the amount and timing of periodic payments, the name of the Reference Obligation, the Notional Amount, the effective date, the termination date and other similarly necessary changes) to a form previously approved in writing by the Rating Agencies for use by the Issuer; *provided*, that so long as any Class A-1 Notes are outstanding and the Commitment Termination Date has not occurred, any material amendment to a Form-Approved Synthetic Security and any new Form-Approved Synthetic Security must be approved by the Class A-1 Noteholder and (c) for which the Issuer has provided to each of the Rating Agencies notice of the purchase of such Synthetic Security within five Business Days after such purchase requesting the relevant Rating Agency's determination of the Moody's Applicable Recovery Rate and Moody's Rating or Standard & Poor's Applicable Recovery Rate and Standard & Poor's Rating, as applicable, with respect to such Synthetic Security; *provided* that any of the Rating Agencies may revoke its consent to the use of a Form-Approved Synthetic Security with respect to any prospective purchase by the Issuer of a Synthetic Security upon 30 days' prior written notice to the Trustee and the Collateral Manager (*provided* that such revocation will not affect the continuing effectiveness of any Synthetic Security already entered into under such cancelled Form-Approved Synthetic Security or the determination of the Moody's Recovery Rate, Standard & Poor's Recovery Rate, Standard & Poor's Rating and Moody's Rating with respect to any such Synthetic Security).

"Funded Amount" means with respect to (a) any funded Synthetic Security, the excess, if any of (1) the aggregate Notional Amount theretofore paid by the Issuer to the related Synthetic Security Counterparty or standing to the credit of the applicable Synthetic Security Counterparty Account in favor of the applicable Synthetic Security Counterparty in respect thereof over (2) the principal or Notional Amounts theretofore deposited as collateral by the related Synthetic Security Counterparty to the Issuer in respect thereof and (b) any Synthetic Security that is an unfunded Synthetic Security, zero.

"Future Flow 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 trade accounts receivable, entertainment royalties, structured litigation settlements or ticket receivables.

"Guaranteed Corporate Debt Security" means a CDO Security that does not satisfy the requirements of the definition of Insurance Company Guaranteed Security and that is guaranteed as to ultimate or timely payment of principal or interest.

"Haircut Amount" means, solely for purposes of calculating the Net Outstanding Portfolio Collateral Balance in connection with a determination of the AAA/Aaa Coverage Ratio, if a Moody's Rating, Standard & Poor's Rating or Fitch Rating (*provided* that, for the avoidance of doubt, such haircuts referencing Fitch are not the requirements of Fitch) set forth in the table below is applicable to a Collateral Debt Security, then the Principal Balance of such Collateral Debt Security (without giving effect to any other discount to par by operation of the definition of "Principal Balance") shall be discounted by multiplying the outstanding principal amount of such Collateral Debt Security by the "Discount Percentage" opposite the lower of the Moody's Rating, Standard & Poor's Rating and Fitch Rating applicable to such Collateral Debt Security as set forth in the table below:

Moody's Rating	Discount Percentage	Standard & Poor's Rating or Fitch Rating	Discount Percentage
Ba1, Ba2, Ba3	90%	BB+, BB, BB-	90%
B1, B2, B3	80%	B+, B, B-	70%
Below B3	50%	Below B-	50%

“Healthcare 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 (i) leases and subleases of equipment to hospitals, non-hospital medical facilities, physicians and physician groups for use in the provision of healthcare services or (ii) Medicare, Medicaid or any other third-party payor receivables related to medical, hospital or other health care related expenses, charges or fees.

“Hedge Counterparty Ratings Requirement” means, with respect to any Hedge Counterparty (i) either (A) the long-term senior unsecured debt of such party is rated at least “Aa3” by Moody’s (and if rated “Aa3”, such rating is not on watch for possible downgrade by Moody’s) or higher if such party has only a long-term senior unsecured debt rating or (B) the long-term senior unsecured debt of such party is rated at least “A1” by Moody’s (and if rated “A1” is not on watch for possible downgrade by Moody’s) and at least “A” by Fitch and the short-term debt of such party is rated “P-1” by Moody’s (and is not on watch for possible downgrade by Moody’s) if such party has both a long-term senior unsecured debt and short-term debt ratings and (ii) either (A) the short-term unsecured debt of such party is rated at least “A-1” by S&P and “F1” by Fitch, or (B) if no such short-term rating is available from S&P, the long-term senior unsecured debt of such party is rated at least “A+” by S&P; *provided* that, should a Rating Agency effect an overall downward adjustment of its required ratings for hedge counterparties in collateralized debt obligation transactions, then the applicable Hedge Counterparty Ratings Requirement will be subject to satisfaction of the Rating Condition with respect to the applicable Rating Agency.

“Hedge Fund CDO Securities” means CDO Securities for which more than 50% of the assets are comprised of equity investments.

“HG ABS CDO Security” means any CDO Security where the Moody’s Rating Distribution of the underlying portfolio is less than 70 or the Fitch Weighted Average Rating Factor is less than 1.65.

“Home Equity Loan Security” means any Asset-Backed Security that entitles the holder thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from balances (including revolving balances) outstanding under loans or lines of credit secured by (primarily by a second priority lien on) single family or multi-family residential real estate the proceeds of which loans or lines of credit are not used to purchase such real estate or to purchase or construct dwellings thereon (or to refinance indebtedness previously so used), and that generally have the following characteristics: (1) the weighted average credit score based on the credit scoring models developed by Fair, Isaac & Company with respect to the obligors on all such underlying loans upon origination is greater than or equal to 625 and such security is ineligible to be classified as a RMBS Prime Mortgage Security; (2) the balances have standardized payment terms and require minimum monthly payments; (3) the balances are obligations of numerous borrowers and accordingly represent a very diversified pool of obligor credit risk; (4) the repayment stream on such balances does not depend on a contractual repayment schedule, with early repayment depending primarily on interest rates, availability of credit against a maximum line of credit and general economic matters; and (5) the line of credit or loan may be secured by residential real estate with a market value (determined on the date of origination of such line of credit or loan) that is less than the original proceeds of such line of credit or loan.

“Hybrid Security” means any Collateral Debt Security (including but not limited to Asset-Backed Securities the payments on which depend on the cash flow from adjustable rate mortgages) that, pursuant to its Underlying Instruments, bears interest at a fixed rate for a limited period of time, after which it bears 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.

“Insurance Company Guaranteed Securities” means any Asset-Backed Security as to which the timely payment of interest when due, and the payment of principal no later than stated legal maturity, is (a) unconditionally guaranteed pursuant to an insurance policy, guarantee or other similar instrument issued by an insurance company organized under the laws of a state of the United States, but only if such insurance policy, guarantee or other similar instrument (i) expires no earlier than such stated maturity, (ii) provides that payment thereunder is independent of the performance by the obligor on the relevant Asset-Backed Security and (iii) is issued by an insurance company 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 insurance policy, guarantee or other similar instrument or (b) in the judgment of the Collateral Manager, dependent upon an insurance policy, guarantee or other similar instrument issued by an insurance company organized under the laws of a state of the United States, *provided* that any Asset-Backed Security falling within this definition will be excluded from the definition of each other type of Asset-Backed Security.

“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 on or prior to the date two Business Days prior to the Stated Maturity of the Notes.

“Interest Period” means, with respect to the Notes (a) in the case of the initial Interest Period, (i) with respect to Notes fully funded on the Closing Date, the period from, and including, the Closing Date to, but excluding the first Distribution Date and (ii) with respect to the Class A-1 Notes, the period from and including any borrowing date thereunder ending on and including the day immediately preceding the next Monthly Distribution Date and (b) thereafter, the period from, and including, the Distribution Date immediately following the last day of the immediately preceding Interest Period to, but excluding, the next succeeding Distribution Date.

“Interest Proceeds” means, with respect to any Due Period, the sum (without duplication) of: (1) all payments of interest (including (a) payments of fixed premium amounts in respect of Synthetic Securities, (b) any Interest Reimbursements received by the Issuer in respect of any CDS Agreement Transactions or other Synthetic Securities structured as credit default swaps and (c) the portion of any Sale Proceeds received in respect of the sale or other disposition of any Synthetic Security that is attributable to accrued but unpaid fixed premium amounts payable by the related Synthetic Security Counterparty) on the Collateral Debt Securities (other than Collateral Debt Securities that pay interest less frequently than quarterly) received in cash by the Issuer during such Due Period or (other than with respect to Defaulted Securities) in the reasonable business judgment of the Collateral Manager, expected to be received in cash by the Issuer during such Due Period and the portion of the interest on Collateral Debt Securities that pay interest quarterly or less frequently than quarterly received in cash by the Issuer during such Due Period that is to be deposited in the Interest Collection Account during such Due Period pursuant to the Interest Reserve Schedule (in each case excluding (x) payments in respect of accrued interest to the extent these are included in Principal Proceeds pursuant to clause (7) of the definition thereof, (y) interest on any Collateral Debt Security that is required to be paid to an Asset Hedge Counterparty in accordance with the terms of a Deemed Floating Asset Hedge Agreement and (z) payments of interest in respect of Defaulted Securities and Written-Down Securities (but only so long as the aggregate amount of payments received by the Issuer in respect of any such Defaulted Security or Written-Down-Security does not exceed the original principal amount of such Defaulted Security or Written-Down-Security)), together with the amount, if any, released from the Interest Equalization Account for deposit into the Interest Collection Account with respect to such Due Period; (2) all amounts to be transferred by the Trustee from the Interest Reserve Account to the Interest Collection Account on the Business Day prior to the Distribution Date relating to such Due Period pursuant to the Interest Reserve Schedule; (3) all accrued interest received in cash by the Issuer with respect to Collateral Debt Securities sold by the Issuer (excluding payments in respect of accrued and unpaid interest on (a) any Credit Improved Security or Credit Risk Security or any Collateral Debt Security sold pursuant to a discretionary sale that, in each case, is sold and reinvested at the option of the Collateral Manager in any substitute Collateral Debt Security, (b) Sale Proceeds received in respect of Defaulted Securities and Written-Down Securities (but only so long as the aggregate amount of payments received by the Issuer in respect of any such Defaulted Security or Written-Down-Security does not exceed the original principal amount of such Defaulted Security or Written-Down-Security) and (c) payments in respect of accrued interest to the extent these are included in Principal Proceeds pursuant to clause (7) of the definition of Principal Proceeds); (4) all payments of interest (including any amount representing the accreted portion of a discount from the face amount of an Eligible Investment) on Reserve Account Investments, Eligible Investments or U.S. Agency Securities in the

Collection Accounts, the Interest Equalization Account, the Interest Reserve Account and the Reserve Account received in cash by the Issuer during such Due Period and all payments of principal, including repayments, on Eligible Investments purchased with amounts from the Interest Collection Account received by the Issuer during such Due Period; (5) 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 such Collateral Debt Securities, Reserve Account Investments, Eligible Investments and U.S. Agency Securities (other than (a) fees and commissions received in respect of Defaulted Securities and Written-Down Securities, to the extent these are included in Principal Proceeds pursuant to clause (4) of the definition thereof and (b) yield maintenance payments included in Principal Proceeds pursuant to clause (9) of the definition thereof); (6) all payments received pursuant to any Hedge Agreement or any Deemed Floating Asset Hedge Agreement (excluding any payments received by the Issuer by reason of an Event of Default or Termination Event (as defined in the relevant Hedge Agreement) that are required to be used for the purchase of a replacement Hedge Agreement) less any deferred premium payments payable by the Issuer under such Hedge Agreement during such Due Period; (7) any carry paid to the Issuer in cash with respect to Collateral Debt Securities acquired on behalf of the Issuer in connection with the warehousing arrangements entered into prior to the Closing Date; (8) any amounts received in respect of Negative Amortization Capitalization Amounts for such Due Period; (9) with respect to the first Distribution Date on or after the Ramp-Up Completion Date, any Excess Reserve Account Assets standing to the credit of the Reserve Account on the Ramp-Up Completion Date that the Collateral Manager deems to be Interest Proceeds if the Net Outstanding Portfolio Collateral Balance is equal to or greater than U.S.\$ 1,100,000,000; (10) on the Determination Date in respect of the first Monthly Distribution Date, any Excess Reserve Account Assets to be applied as Interest Proceeds to the extent necessary to pay any interest or commitment fee due and payable on any of the Notes on such Distribution Date pursuant to “Priority of Payments—Interest Proceeds”, to the extent that Interest Proceeds otherwise available would be insufficient therefor; provided that any application of funds from the Reserve Account to the Interest Collections Account pursuant to this Clause (10) shall not exceed \$825,000 in the aggregate and shall not result in a reduction of the Net Outstanding Portfolio Collateral Balance to an amount below U.S.\$1,100,000,000; and (11) accrued interest purchased with the proceeds of items (1) through (10) of this definition of Interest Proceeds; *provided that* (A) Interest Proceeds shall in no event include the U.S.\$250 of capital contributed by the owners of the ordinary shares of the Issuer in accordance with the Issuer Charter and U.S.\$250 representing a profit fee to the owner of the Issuer’s ordinary shares, (B) if the presence of a legal or business holiday, whether applicable to the Notes or Credit Default Swaps, in each case, in accordance with the Indenture or applicable to any Collateral Debt Security in accordance with its Underlying Instruments, causes a scheduled distribution on any Collateral Debt Security or other security held as Collateral to be received in the period between the end of the Due Period in which such payment would otherwise have been received and the related Distribution Date, such payment will be deemed to have been received during such Due Period and (C) for purposes of clause (8) of this definition, at any time when any Negative Amortization Capitalization Amounts have accrued on a Negative Amortization Security, (x) first, unscheduled payments of principal in respect thereof and (y) second (but only if the related payment report delivered to investors indicates that the aggregate Negative Amortization Capitalization Amount (if any) in respect thereof has remained the same or decreased in the related reporting period), scheduled payments of principal in respect thereof shall be deemed to be applied to the reduction of such aggregate Negative Amortization Capitalization Amount and therefore constitute “Interest Proceeds” for purposes of this definition until such aggregate Negative Amortization Capitalization Amount has been reduced to zero.

“Interest Shortfall” means, with respect to any payment date under the Reference Obligation related to a CDS Agreement Transaction, 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.

“Issue” of Collateral Debt Securities means Collateral Debt Securities issued by the same issuer, secured by the same collateral pool having the same terms and conditions (as to, among other things, coupon, maturity, security and subordination).

“Lottery Receivable Security” means an Asset-Backed Security that (a) entitles the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such Asset-Backed Security) upon an arrangement that 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 and (b) is 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.

“Majority” means with respect to any Class or Classes of Notes, the holders of more than 50% of the Aggregate Outstanding Amount of the Notes of such Class or Classes, as the case may be.

“Majority ABS Security” means any security that is one of the following Specified Types: CDO Securities, Automobile Securities, CMBS Securities, Credit Card Securities, Equipment Leasing Securities, Home Equity Loan Securities, RMBS Prime, RMBS Mid-Prime Mortgage Securities, RMBS Subprime Mortgage Securities, ABX Index Synthetic Securities, Student Loan Securities and Small Business Loan Securities.

“Majority-in-Interest of Preference Shares” means the holders of more than 50% of the issued and outstanding Preference Shares.

“Manufactured Housing Securities” means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from manufactured housing (also known as mobile homes and prefabricated homes) installment sales contracts and installment loan agreements, generally having the following characteristics: (1) the contracts and loan agreements have varying, but typically lengthy contractual maturities; (2) the contracts and loan agreements are secured by the manufactured homes and, in certain cases, by mortgages and/or deeds of trust on the real estate to which the manufactured homes are deemed permanently affixed; (3) the contracts and/or loans are obligations of a large number of obligors and accordingly represent a relatively diversified pool of obligor credit risk; (4) repayment thereof can vary substantially from the contractual payment schedule, with early prepayment of individual loans depending on numerous factors specific to the particular obligors and upon whether, in the case of loans bearing interest at a fixed rate, such loans or securities include an effective prepayment premium; and (5) in some cases, obligations are fully or partially guaranteed by a governmental agency or instrumentality.

“Market Value CDO Securities” means CDO Securities with respect to which the coverage ratios are determined by reference to the market value of the underlying portfolio of investments as prescribed by the applicable rating agencies.

“Maximum Class A-1 Principal Amount” means U.S.\$ 770,000,000.

“Measurement Date” means any of the following: (i) the Ramp-Up Completion Date; (ii) any date after the Ramp-Up Completion Date upon which the Issuer enters into a commitment to acquire or dispose of any Collateral Debt Security; (iii) any date after the Ramp-Up Completion Date on which a Collateral Debt Security becomes a Defaulted Security; (iv) each Determination Date; and (v) with written notice of two Business Days to the Issuer and the Trustee, any other Business Day that either Rating Agency or a Majority of any Class of Notes requests 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.

“Minority ABS Security” means any security that is one of the following Specified Types: Bank Guaranteed Securities, FHLMC/FNMA Guaranteed Securities, Floorplan Receivable Securities, Insurance Company Guaranteed Securities, Re-REMICs, U.S. Agency Guaranteed Securities, Manufactured Housing Securities, REIT Debt Securities, Time Share Securities and Mortgage Finance Company Securities.

“Monthly Asset Amount” means, with respect to any Monthly Distribution Date, the Net Outstanding Portfolio Collateral Balance on the first day of the Calculation Period commencing on the preceding Monthly Distribution Date or, in the case of the first Calculation Period, on the Closing Date.

“Monthly Distribution Date” means the 10th day of every calendar month, beginning on the Monthly Distribution Date occurring in April 2007; *provided* that (i) the final Monthly Distribution Date shall be the Stated Maturity or such earlier date upon which the Notes and Preference Shares are redeemed and (ii) if any such date is not a Business Day, the relevant Monthly Distribution Date will be the next succeeding Business Day.

“Moody’s” means Moody’s Investors Service, Inc. and any successor or successors thereto.

“Moody’s Notching Approved Security” means any Collateral Debt Security that (a)(i) is identified as such on the Closing Date in a schedule attached as Schedule D hereto or (ii) which Moody’s confirms in writing to the

Collateral Manager may constitute a “Moody’s Notching Approved Security” for purposes of this definition (a copy of which confirmation the Collateral Manager shall promptly forward to the Trustee) and (b) the Collateral Manager has notified the Trustee shall constitute a “Moody’s Notching Approved Security” for purposes of this definition; *provided* that, with respect to any Collateral Debt Security that complies with the requirements of the foregoing clause (a), the Collateral Manager may, in its sole discretion at any time and from time-to-time, upon notice to the Trustee, withdraw or reinstate its designation of a Collateral Debt Security as a “Moody’s Notching Approved Security” for purposes of this definition.

“Moody’s Rating” has the meaning set forth in Schedule E.

“Mortgage Finance Company Security” means a debt security (other than an Asset-Backed Security or a REIT Debt Security), which may be secured or unsecured issued by a mortgage-related finance company that, if subordinate by its terms, is subordinated only to indebtedness for borrowed money, trade claims, capitalized leases or other similar obligations.

“Mutual Fund Fees Securities” means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from a pool of brokerage fees and costs relating to various mutual funds, generally having the following characteristics: (1) the brokerage arrangements have standardized payment terms and require minimum payments; (2) the brokerage fees and costs arise out of numerous mutual funds and accordingly represent a very diversified pool of credit risk; and (3) the collection of brokerage fees and costs can vary substantially from the contractual payment schedule (if any), with collection depending on numerous factors specific to the particular mutual funds, interest rates and general economic matters.

“Negative Amortization Capitalization Amount” means, with respect to any Negative Amortization Security and any specified period of time, the aggregate amount of accrued interest thereon that has been capitalized as principal pursuant to the related Underlying Instruments during such period, as the same may be reduced from time-to-time pursuant to and in accordance with the related Underlying Instruments.

“Negative Amortization Haircut Amount” means, with respect to any Negative Amortization Security on any date of determination, the excess (if any) of (a) the Negative Amortization Capitalization Amount therefor (if any) for the period from and including the date of issuance thereof to but excluding such date of determination over (b) the sum of (i) 5% of the original principal amount of such Negative Amortization Security upon issuance.

“Negative Amortization Security” means an RMBS Security which (a) permits the related mortgage loan or mortgage loan obligor for a specified period of time to make no repayments of principal and payments of interest in amounts that are less than the interest payments that would otherwise be payable thereon based upon the stated rate of interest thereon, (b) to the extent that interest proceeds received in respect of the related underlying collateral are insufficient to pay interest that is due and payable thereon, permits principal proceeds received in respect of the related underlying collateral to be applied to pay such interest shortfall and (c) to the extent that the aggregate amount of interest proceeds and principal proceeds received in respect of the related underlying collateral are insufficient to pay interest that is due and payable thereon, permits such unpaid interest to be capitalized as principal and itself commence accruing interest at the applicable interest rate, in each case pursuant to the related Underlying Instruments.

“Net Outstanding Portfolio Collateral Balance” means, on any Measurement Date, an amount equal to (a) the Aggregate Principal Balance on such Measurement Date of all Collateral Debt Securities plus (b) the Aggregate Principal Balance of all Principal Proceeds held as cash and Eligible Investments and U.S. Agency Securities purchased with Principal Proceeds and any amount on deposit at such time in the Principal Collection Account (without duplication) plus (c) the Excess Notional Amount Liquidity as of such Measurement Date minus (d) the Aggregate Principal Balance on such Measurement Date of all Collateral Debt Securities that are (i) Defaulted Securities or (ii) Equity Securities plus (e) for each Defaulted Security, the Calculation Amount with respect to such Defaulted Security.

“NIM Security” means a net-interest margin security.

“Non-Libor Floating Rate Collateral Debt Security” means Floating Rate Collateral Debt Securities with an interest rate computed with respect to any index based on the federal funds rate, the prime rate or a commercial paper rate, constant maturity treasuries (as reported by the Federal Reserve), the 12-month Treasury average of the monthly average yields of U.S. Treasury securities adjusted to a constant maturity of one year, Treasury Bills, constant maturity swaps that exchange a LIBOR rate for a particular swap rate, the Cost of Funds Index (COFI) customarily used for resetting the coupon rate on adjustable rate mortgages or any other index with respect to which the Rating Condition is satisfied.

“Note Break-Even Default Rate” means, with respect to any Class of Notes rated by Standard & Poor’s, at any time, the maximum percentage of defaults (as determined by 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 (i) in the case of the Class C Notes, Class D Notes, Class E Note and Class F Notes in sufficient funds remaining for the payment in full of principal of and interest on such Class of Notes in full by its Stated Maturity and (ii) in the case of the Class A Notes and Class B Notes, in sufficient funds remaining for the payment in full of principal (as applicable) and the timely payment of interest and Commitment Fee (as applicable) on such Class of Notes.

“Note Reduction Amount” means, with respect to any Distribution Date, an amount equal to the greater of (a) zero and (b)(i) the Note Share multiplied by (ii) the Total Reduction Amount.

“Note Share” means, for each Distribution Date as of the related Determination Date, the ratio of (a)(i) the Aggregate Outstanding Amount of the Notes immediately following the previous Distribution Date (or in the case of the first Distribution Date, the initial Aggregate Outstanding Amount of the Notes) minus (ii) the Deferred Notes Principal to (b) the sum of (i) the Aggregate Outstanding Amount of the Notes immediately following the previous Distribution Date (or in the case of the first Distribution Date, the initial Aggregate Outstanding Amount of the Notes) plus (ii) the Remaining Unfunded Class A-1 Note Amount immediately following the operation of the Priority of Payments on the previous Distribution Date (or in the case of the first Distribution Date, the Remaining Unfunded Class A-1 Note Amount on the Closing Date).

“Notes Default Rate Differential” means, with respect to any Class of Notes rated by Standard & Poor’s, at any time, the rate calculated by subtracting the Class Scenario Default Rate at such time from the Note Break-Even Default Rate for such Class of Notes at such time. The Notes Default Rate Differential is based on a proprietary model developed by Standard & Poor’s, the application of which may change from time-to-time as directed by Standard & Poor’s.

“Notice of Publicly Available Information” means an irrevocable written notice from the protection buyer to the protection seller that, consistent with the requirements of the Credit Derivatives Definitions (as modified by the Form-Approved Synthetic Security) cites publicly available 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 any Synthetic Security (including any CDS Agreement Transaction), (a) the “Floating Rate Payer Calculation Amount” as defined in the Credit Derivatives Definitions, (b) the Reference Obligation Notional Amount or (c) or any similar term in the related Underlying Instruments that refers to the par amount of indebtedness that would be valued for purposes of determining the cash or physical settlement obligations of the parties thereto.

“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 its 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 of its Underlying Instruments.

“Oil and Gas Securities” means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from (a) a pool of franchise loans made to operators of franchises that provide oil and gasoline and provide other services related thereto and (b) leases or subleases of equipment to such operators for use in the provision of such goods and services. They generally have the following

characteristics: (1) the loans, leases or subleases have varying contractual maturities; (2) the loans are secured by real property purchased or improved with the proceeds thereof (or to refinance an outstanding loan the proceeds of which were so used); (3) the obligations of the lessors or sublessors of the equipment may be secured not only by the leased equipment but also the related real estate; (4) the loans, leases and subleases are obligations of a relatively limited number of obligors and accordingly represent a relatively undiversified pool of obligor credit risk; (5) payment of the loans can vary substantially from the contractual payment schedule (if any), with prepayment of individual loans depending on numerous factors specific to the particular obligors and upon whether, in the case of loans bearing interest at a fixed rate, such loans include an effective prepayment premium; (6) the repayment stream on the leases and subleases is primarily determined by a contractual payment schedule, with early termination of such leases and subleases predominantly dependent upon the disposition to a lessee, a sublessee or third party of the underlying equipment; (7) such leases and subleases typically provide for the right of the lessee or sublessee to purchase the equipment for its stated residual value, subject to payments at the end of a lease term for excess usage or wear and tear; and (8) the ownership of a franchise right or other similar license and the creditworthiness of such franchise operators is the primary factor in any decision to invest in these securities.

“Outstanding” means, with respect to the Notes or a particular Class of the Notes, as of any date of determination, all of the Notes or all of the Notes of such Class theretofore authenticated and delivered under the Indenture except:

- (a) Notes theretofore canceled by the Note Registrar or delivered to the Note Registrar for cancellation;
- (b) Notes or portions thereof for whose payment or redemption funds in the necessary amount have been theretofore irrevocably deposited with the Trustee or any Paying Agent in trust for the Holders of such Notes; *provided* that, if such Notes or portions thereof are to be redeemed, notice of such redemption has been duly given pursuant to the Indenture or provision therefor satisfactory to the Trustee has been made;
- (c) Notes in exchange for, or in lieu of, other Notes which have been authenticated and delivered pursuant to the Indenture, unless proof satisfactory to the Trustee is presented that any such Notes are held by a holder in due course; and
- (d) Notes alleged to have been mutilated, destroyed, lost or stolen for which replacement Notes have been issued as provided in Section 2.5, as applicable;

provided that in determining whether the Holders of the requisite Aggregate Outstanding Amount have given any request, demand, authorization, direction, notice, consent or waiver hereunder, (1) Notes beneficially owned by the Issuer or the Co Issuer or any other obligor upon the Notes or any Affiliate of any of them shall be disregarded and deemed not to be Outstanding and (2) Notes beneficially owned by the Collateral Manager, any Affiliate of the Collateral Manager or any account for which the Collateral Manager or an Affiliate of the Collateral Manager acts as investment adviser (and for which the Collateral Manager or such Affiliate has discretionary authority) shall be disregarded and deemed not to be Outstanding with respect to any assignment or termination of, any of the express rights or obligations of the Collateral Manager under the Collateral Management Agreement or the Indenture (including the exercise of any rights to remove the Collateral Manager or terminate the Collateral Management Agreement or approve or object to a Replacement Manager (as defined in the Collateral Management Agreement), other than removal of the Collateral Manager without cause), 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 except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Notes that the Trustee knows to be beneficially owned in the manner indicated in clause (1) or (2) above shall be so disregarded. Notes owned in the manner indicated in clause (1) or (2) above that have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee’s right so to act with respect to such Notes and that the pledgee is not the Issuer, the Co Issuer, the Collateral Manager or any other obligor upon the Notes or any Affiliate of the Issuer, the Co Issuer, the Collateral Manager or such other obligor or an account for which the Collateral Manager or an Affiliate of the Collateral Manager acts as investment adviser (and for which the Collateral Manager or such Affiliate has discretionary authority).

“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 of all obligations of the Reference Entity secured by the Underlying Assets and ranking pari passu in priority with the Reference Obligation.

“PIK Bond” means any Collateral Debt Security (or any Synthetic Security, the Reference Obligation of which is a PIK Bond) that, pursuant to the terms of the related Underlying Instruments, permits the payment of interest thereon to be deferred, diverted and/or capitalized as additional principal thereof (even if sufficient interest proceeds would have been available to pay interest on the Collateral Debt Security) or that issues identical securities in place of payments of interest in cash (even if sufficient interest proceeds would have been available to pay interest on the Collateral Debt Security); *provided* that as of the date of such Collateral Debt Security’s inclusion in the Collateral, such Collateral Debt Security has paid in cash all interest accrued thereon up to and including such date. In no event shall a Negative Amortization Security constitute a PIK Bond for purposes of this definition.

“Principal Balance” means, with respect to any Pledged Security, as of any date of determination, the outstanding principal amount of such 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 of such tendered Collateral Debt Security, shall be deemed to be the Calculation Amount of such received Collateral Debt Security until such time as Interest Proceeds and Principal Proceeds, as applicable, are received when due with respect to such received 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 (including any CDS Agreement Transaction), (A) otherwise at any time prior to the delivery of a notice of physical settlement in accordance with the terms of such Synthetic Security, the Notional Amount of such Synthetic Security or (B) at any time following the delivery of a notice of physical settlement in accordance with the terms of such Synthetic Security but prior to the receipt by the Issuer of the related Deliverable Obligations, the Physical Settlement Amount plus the remaining notional amount, if any, of such Synthetic Security, in each case determined in accordance with the Underlying Instruments relating thereto, (ii) in the case of a Synthetic Security that meets the Synthetic Security Discount Criteria, an amount equal to (i) the current Notional Amount of the Synthetic Security multiplied by (ii) a fraction (A) the numerator of which is the Assigned Value of the related Reference Obligation and (B) the denominator of which is the current Principal Balance of the related Reference Obligation or (iii) in the case of any other Synthetic Security, the aggregate amount of the repayment obligations of the Synthetic Security Counterparty payable to the Issuer through the maturity of such Synthetic Security;
- (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 PIK Bond shall be equal to the outstanding principal amount thereof (exclusive of any principal thereof representing capitalized interest);
- (e) the Principal Balance of any Eligible Investment that does not pay cash interest on a current basis will be the lesser of par or the original issue price thereof;
- (f) the Principal Balance of any Written-Down-Security shall be reduced to reflect the percentage by which the aggregate par amount of the entire Issue of which such Written-Down-Security is a part (taking into account all securities ranking senior in priority of payment thereto and secured by the same pool of collateral) exceeds the aggregate par amount (including reserved interest or other amounts available for overcollateralization) of all collateral securing such Issue (excluding defaulted collateral), as determined by the Collateral Manager using customary procedures and information available in the servicer reports relating to such Written-Down-Security;
- (g) the Principal Balance of a Zero Coupon Bond shall be the sum of (i) the original issue price thereof plus (ii) the aggregate amount of interest accreted thereon to but excluding such date of determination in

accordance with the provisions of the related Underlying Instruments (or any other agreement between the issuer thereof and the original purchasers thereof) relating to the reporting of income by the holders of, and deductions by the issuer of, such Zero Coupon Bond for U.S. federal income tax purposes;

(h) the Principal Balance of a Discount Security shall be the Discount Security Haircut Amount; 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; *provided* that the Principal Balance of a Negative Amortization Security for purposes of calculating the AAA/Aaa Coverage Ratio shall be reduced by the Negative Amortization Haircut Amount.

“Principal Only Security” means any Collateral Debt Security (other than a Zero Coupon Bond) 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 amounts transferred from the Reserve Account to the Principal Collection Account during the Reinvestment Period pursuant to the Indenture; (2) all payments of principal on the Collateral Debt Securities and Eligible Investments received in cash by the Issuer during such Due Period (a) excluding (x) (i) any amount representing the accreted portion of a discount from the face amount of an Eligible Investment included in Interest Proceeds pursuant to clause (4) of the definition thereof and (ii) any amounts received in respect of Negative Amortization Capitalization Amounts included in Interest Proceeds pursuant to clause (8) of the definition thereof and (y) any Principal Reimbursement received by the Issuer after the Reinvestment Period in respect of any CDS Agreement Transaction (b) but including (i) prepayments or mandatory sinking fund payments, (ii) payments in respect of optional redemptions, exchange offers, tender offers and interest (other than payments of principal of Eligible Investments acquired with Interest Proceeds), (iii) recoveries on Defaulted Securities and Written-Down Securities, (iv) the Sale 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 and (v) any Principal Reimbursements received by the Issuer in respect of any CDS Agreement Transactions or other Synthetic Securities structured as credit default swaps other than those described in the foregoing clause (y), in each case received in cash by the Issuer during such Due Period; (3) Sale Proceeds received by the Issuer during such Due Period (excluding those treated as “Interest Proceeds” pursuant to clause (1) of the definition thereof); (4) all amendment, waiver, late payment fees and other fees and commissions, received in cash by the Issuer during the related Due Period in respect of Defaulted Securities and Written-Down Securities (but only so long as the aggregate amount of such payments received by the Issuer and in respect of any such Defaulted Security or Written-Down-Security does not exceed the original principal amount at the time of purchase by the Issuer of such Defaulted Security or Written-Down-Security); (5) any proceeds resulting from the termination, liquidation or reduction of the Notional Amount of a Hedge Agreement or the Credit Default Swap Agreement (to the extent such proceeds do not represent accrued interest); (6) all payments received in cash by the Issuer during such Due Period that represent call or prepayment; (7) all payments of interest on Collateral Debt Securities received in cash by the Issuer to the extent that they represent accrued interest purchased with Principal Proceeds (following the Closing Date but excluding amounts received on the Closing Date) or amounts standing to the credit of the Reserve Account after the Ramp-Up Completion Date; (8) all payments received on Zero Coupon Bonds during such Due Period; (9) all yield maintenance payments received in cash by the Issuer during such Due Period; (10) proceeds of any assets standing to the credit of the Reserve Account and any proceeds of such proceeds; (11) Excess Reserve Account Assets that the Collateral Manager deems to be Principal Proceeds; (12) any termination payment or offsetting of any ABX Index Synthetic Security; (13) any interest above LIBOR earned on any Reserve Account Investment consisting of a repurchase obligation entered into with CALYON; (14) all other payments received in connection with the Collateral Debt Securities, Reserve Account Investments and Eligible Investments that are not included in Interest Proceeds; and (15) accrued interest purchased with the proceeds of items (1) through (14) of this definition of Principal Proceeds; *provided* that (i) in no event shall Principal Proceeds include the U.S.\$250 of capital contributed by the owners of the ordinary shares of the Issuer in accordance with the Issuer Charter or U.S.\$250 representing a profit fee to the owner of the Issuer’s ordinary shares and interest thereon and (ii) if the presence of a legal or business holiday causes a scheduled distribution on any Collateral Debt Security

or other security held as Collateral to be received in the period between the end of the Due Period in which such payment would otherwise have been received and the related Distribution Date, such payment will be deemed to have been received during such Due Period.

“Private Equity CDO Securities” means CDO Securities for which more than 50% of the assets are comprised of private equity investments.

“Project Finance Securities” means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from (1) the sale of products, such as electricity, nuclear energy, steam or water, in the utility industry by a special purpose entity formed to own the assets generating or otherwise producing such products and such assets were or are being constructed or otherwise acquired primarily with the proceeds of debt financing made available to such entity on a limited-recourse basis (including recourse to such assets and the land on which they are located) or (2) fees or other usage charges, such as tolls collected on a highway, bridge, tunnel or other infrastructure project, collected by a special purpose entity formed to own one or more such projects that were constructed or otherwise acquired primarily with the proceeds of debt financing made available to such entity on a limited-recourse basis (including recourse to the project and the land on which it is located).

“Proposed Plan” means a reasonable plan proposed by the Collateral Manager, on behalf of the Issuer, to the Rating Agencies in connection with the Ramp-Up Completion Date, which Proposed Plan may include a proposal to (a) apply funds from the Reserve Account, (b) reduce the Remaining Unfunded Class A-1 Commitment Amount by making a deposit to the Reserve Account, (c) make payments of principal of and accrued interest on the Aggregate Outstanding Amount of the Notes or a payment on a Credit Default Swap Agreement in accordance with the Priority of Payments, (d) sell a portion of the Collateral, (e) subject to the terms of the Paying Agency Agreement, issue additional Preference Shares and use the proceeds from the sale of such Preference Shares to purchase Collateral, (f) extend the Ramp-Up Completion Date, (g) amend the Indenture, including, without limitation, the requirements necessary to satisfy each of the Collateral Quality Tests and any of the Investment Criteria in which case all references therein to any Collateral Quality Test, Investment Criteria or any other provision modified pursuant to the related Proposed Plan, from the date of satisfaction of the Rating Condition, with respect to such Proposed Plan, shall be deemed to refer to such item as so modified or (h) any other action as may be proposed in a Proposed Plan that satisfies the Rating Condition; *provided that*, unless the Rating Agencies agree otherwise, the Rating Agencies shall have at least 30 days to review any such Proposed Plan. In accordance with the Indenture, the terms and conditions of any Proposed Plan proposed by the Collateral Manager, on behalf of the Issuer, and in respect of which the Rating Condition has been satisfied, as described above, shall be set forth in a supplemental indenture as permitted thereby.

“Proposed Portfolio” means the portfolio (measured by Principal Balance) of (a) Collateral Debt Securities, (b) Principal Proceeds held as cash, (c) Eligible Investments purchased with Principal Proceeds and (d) the Excess Notional Amount Liquidity 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.

“Pro Rata Payment Conditions” mean conditions that will be satisfied, as of any Determination Date, if (a) as of the related Determination Date, the Net Outstanding Portfolio Collateral Balance is equal to or greater than 50% of the Required Ramp-Up Amount, (b) no Event of Default has occurred and is continuing as of the related Determination Date, (c) there has not been a ratings downgrade or withdrawal of any of the Class A Notes by any of the Rating Agencies and (d) the AAA/Aaa Coverage Ratio as of the most recent Determination Date is at least (x) on any Determination Date prior to the last day of the Reinvestment Period, 112% and (y) on any Determination Date on or after the last day of the Reinvestment Period, 125%; *provided that* if the Issuer has failed to meet the minimum AAA/Aaa Coverage Ratio set forth in this clause (d) on any prior Determination Date, the Pro Rata Payment Conditions shall be deemed to be satisfied in respect of any Determination Date if (i) clauses (a) through (d) are satisfied as of such Determination Date and (ii) the Issuer is in compliance with the Moody’s Maximum Rating Distribution Test as of such Determination Date.

“Prospectus Directive” means Directive 2003/71/EC of the European Parliament and of the Council of the European Union dated 4 November, 2003 regarding any prospectus published in relation to securities offered to the public or admitted to trading.

“Qualifying Foreign Obligor” means a corporation, partnership, trust or other entity organized in any of Australia, Canada, France, Germany, Ireland, the Netherlands, the Netherlands Antilles, New Zealand, Sweden, Switzerland or the United Kingdom, so long as the unguaranteed, unsecured and otherwise unsupported long-term Dollar sovereign debt obligations of such country are rated “Aa2” (and such rating is not on watch for possible downgrade) or better by Moody’s and “AA” or better by Standard & Poor’s and “AA” or better by Fitch.

“Quarterly Asset Amount” means, with respect to any Quarterly Distribution Date, the average of the Net Outstanding Portfolio Collateral Balance at the beginning of each monthly Calculation Period from and including the prior Quarterly Distribution Date up to (but excluding) the current Distribution Date or, in the case of the first Quarterly Distribution Period, the average of the Net Outstanding Portfolio Collateral Balance for each monthly Calculation Period immediately following the Closing Date up to (but excluding) the first Quarterly Distribution Date.

“Quarterly Distribution Date” means the 10th day of each March, June, September and December, beginning on the Quarterly Distribution Date occurring in June 2007; *provided* that (i) the final Quarterly Distribution Date shall be the Stated Maturity or such earlier date upon which the Notes and Preference Shares are redeemed and (ii) if any such date is not a Business Day, the relevant Quarterly Distribution Date will be the next succeeding Business Day.

“Rating Condition” means, with respect to any action taken or to be taken under the Indenture, the Collateral Management Agreement, the Class A-1 Note Purchase Agreement, the Credit Default Swap Agreement or any Hedge Agreement, a condition that is satisfied when each of Moody’s and Standard & Poor’s (or, if so specified in respect of such action, the specified Rating Agency) has confirmed in writing to the Issuer and the Trustee (and the Trustee will promptly provide a copy of such confirmation to the Collateral Manager and each Hedge Counterparty) that such action will not result in the withdrawal, reduction or other adverse action with respect to its then-current rating (including any private or confidential ratings or credit estimates) of any Class of Notes and notice of such action shall have been given to Fitch within 30-days of such action being taken (or, if the applicable Rating Agency has waived its right to review such action, then the Rating Condition shall be satisfied with respect to that Rating Agency).

“Rating Determining Party” means, with respect to any Hedge Agreement or Synthetic Security, (a) unless clause (b) applies with respect to the Hedge Agreement or Synthetic Security, the related Hedge Counterparty or Synthetic Security Counterparty or any transferee thereof or (b) any Affiliate of the related Hedge Counterparty or Synthetic Security Counterparty or any transferee thereof that unconditionally and absolutely guarantees (pursuant to a form of guarantee that satisfies the Rating Condition with respect to Standard & Poor’s) the obligations of such Hedge Counterparty or Synthetic Security Counterparty or such transferee, as the case may be, under the Hedge Agreement or Synthetic Security. For the purpose of this definition, no direct or indirect recourse against one or more shareholders of a Hedge Counterparty or Synthetic Security 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 such Hedge Counterparty or Synthetic Security Counterparty or any such transferee.

“Recreational Vehicle Securities” means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from installment sale loans made to finance the acquisition of, or from leases of, recreational vehicles, generally having the following characteristics: (1) the loans or leases may have varying contractual maturities; (2) the loans or leases are obligations of numerous borrowers or lessors 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 recreational 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.

“Registered” means in registered form for U.S. federal income tax purposes and issued after July 18, 1984, *provided*, that a certificate of interest in a trust that is treated as a grantor trust for U.S. federal income tax purposes shall not be treated as Registered unless each of the obligations or securities held by the trust was issued after that date.

“Reinsurance Securities” means Asset-Backed Securities that entitle the holders thereof to receive payments that depend in part on the premiums from reinsurance policies held by a special purpose vehicle created for such purpose, generally having the following characteristics: (1) proceeds from the security are invested in a collateral account; (2) such collateral account is subject to claims from the reinsurance policies; and (3) the repayment of principal on the security is dependent on the exercise of the reinsurance policies.

“Reinvestment Period” means the period from the Closing Date and ending on and including the first to occur of (i) the Distribution Date immediately following the date that the Collateral Manager (with the written consent of a Majority-in-Interest of Preference Shares) notifies the Trustee, the Credit Default Swap Counterparty, the Class A-1 Noteholder and each Hedge Counterparty that, in light of the composition of Collateral Debt Securities, general market conditions and other factors (including any change in U.S. federal tax law requiring tax to be withheld on payments to the Issuer with respect to obligations or securities held by the Issuer), the Collateral Manager (in its sole discretion) has determined that investments in additional Collateral Debt Securities within the foreseeable future would either be impractical or not beneficial to the Issuer and the Reinvestment Period should end; (ii) the Distribution Date occurring in March 2012, (iii) the occurrence of an Event of Default or (iv) the AAA/Aaa Coverage Ratio is less than 112% as of any Determination Date; *provided* that, if the Collateral Manager had previously terminated the Reinvestment Period pursuant to clause (i) above, the Collateral Manager may (in its sole discretion) reinstate the Reinvestment Period if such notice of reinstatement is delivered prior to the Determination Date related to the Distribution Date occurring in March 2012.

“REIT Debt Securities” means debt securities issued by a real estate investment trust (as defined in Section 856 of the Code or any successor provision).

“REIT Debt Securities—Diversified” means REIT Debt Securities whose assets consist (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the REIT Debt Securities) of mortgages on a portfolio of diverse real property interests, *provided* that (a) any REIT Debt Security falling within this definition will be excluded from the definition of each other Specified Type of REIT Debt Security and (b) any REIT Debt Security falling within any other REIT Debt Security description set forth herein will be excluded from this definition.

“REIT Debt Securities—Health Care” means REIT Debt Securities whose assets consist (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the REIT Debt 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 REIT Debt Security falling within this definition will be excluded from the definition of each other Specified Type of REIT Debt Security.

“REIT Debt Securities—Hotel” means REIT Debt Securities whose assets consist (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the REIT Debt Securities) of hotels, motels, youth hostels, bed and breakfasts and other similar real property interests used in one or more similar businesses, including assets in the form of mortgages on any of the foregoing; *provided* that any REIT Debt Security falling within this definition will be excluded from the definition of each other Specified Type of REIT Debt Security.

“REIT Debt Securities—Industrial” means REIT Debt Securities whose assets consist (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the REIT Debt Securities) of factories, refinery plants, breweries and other similar real property interests used in one or more similar businesses, including assets in the form of mortgages on any of the foregoing; *provided* that any REIT Debt Security falling within this definition will be excluded from the definition of each other Specified Type of REIT Debt Security.

“REIT Debt Securities—Mortgage” means REIT Debt 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 REIT Debt Securities) of mortgages, commercial mortgage-backed securities, collateralized mortgage obligations and other similar mortgage-related securities (including REIT Debt Securities issued by a hybrid form of such trust that invests in both commercial real estate and commercial mortgages); *provided* that any REIT Debt Security falling within this definition will be excluded from the definition of each other Specified Type of REIT Debt Security.

“REIT Debt Securities—Multi-Family” means REIT Debt Securities whose assets consist (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the REIT Debt Securities) of multifamily dwellings such as apartment blocks, condominiums and co-operative owned buildings, including assets in the form of mortgages on any of the foregoing; *provided* that any REIT Debt Security falling within this definition will be excluded from the definition of each other Specified Type of REIT Debt Security.

“REIT Debt Securities—Office” means REIT Debt Securities whose assets consist (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the REIT Debt Securities) of office buildings, conference facilities and other similar real property interests used in the commercial real estate business, including assets in the form of mortgages on any of the foregoing; *provided* that any REIT Debt Security falling within this definition will be excluded from the definition of each other Specified Type of REIT Debt Security.

“REIT Debt Securities—Residential” means REIT Debt Securities whose assets consist (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the REIT Debt Securities) of residential mortgages (other than multifamily dwellings) and other similar real property interests; *provided* that any REIT Debt Security falling within this definition will be excluded from the definition of each other Specified Type of REIT Debt Security.

“REIT Debt Securities—Retail” means REIT Debt Securities whose assets consist (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the REIT Debt Securities) of retail stores, restaurants, bookstores, clothing stores and other similar real property interests used in one or more similar businesses, including assets in the form of mortgages on any of the foregoing; *provided* that any REIT Debt Security falling within this definition will be excluded from the definition of each other Specified Type of REIT Debt Security.

“REIT Debt Securities—Storage” means REIT Debt Securities whose assets consist (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the REIT Debt Securities) of storage facilities and other similar real property interests used in one or more similar businesses, including assets in the form of mortgages on any of the foregoing; *provided* that any REIT Debt Security falling within this definition will be excluded from the definition of each other Specified Type of REIT Debt Security.

“REIT Debt Security” means a debt security issued by a real estate investment trust (as defined in Section 856 of the Code or any successor provision).

“Remaining Exposure” means with respect to any Synthetic Security (including a CDS Agreement Transaction) at any time the excess, if any, of (i) the Total Exposure of such Synthetic Security at such time over (ii) the Funded Amount of such Synthetic Security at such time.

“Remaining Unfunded Class A-1 Commitment Amount” means, with respect to the Class A-1 Note Purchase Agreement, an amount equal to (i) prior to and including the Distribution Date occurring in March 2012, the excess (if any) of: (A) the Maximum Class A-1 Principal Amount minus any permanent reductions of the Remaining Unfunded Class A-1 Commitment Amount over (B) the Aggregate Outstanding Class A-1 Principal Amount and (ii) after the Distribution Date occurring in March 2012, (A) on any date that is not a Distribution Date, the excess (if any) of (1) the Remaining Exposure of all CDS Agreement Transactions as of the close of business on the immediately preceding Distribution Date (including, for these purposes, the Remaining Exposure of all CDS Agreement Transactions for which the applicable trade date has occurred but excluding the Remaining Exposure of all CDS Agreement Transactions with respect to which the Issuer has entered into a binding commitment to sell, assign, terminate or otherwise liquidate, in each case regardless of the effective date thereof) over (2) the Reserve Account Balance as of the close of business on the immediately preceding Distribution Date and (3) the sum of borrowings on the Class A-1 Notes made under the Class A-1 Note Purchase Agreement after the immediately preceding Distribution Date and (B) on a Distribution Date, the excess (if any) of (1) the Remaining Exposure of all CDS Agreement Transactions (including, for these purposes, the Remaining Exposure of all CDS Agreement Transactions for which the applicable trade date has occurred but excluding the Remaining Exposure of all CDS Agreement Transactions with respect to which the Issuer has entered into a binding commitment to sell, assign, terminate or otherwise liquidate, in each case regardless of the effective date thereof) as measured at the close of business on such day, over (2) the Reserve Account Balance; and in any event, zero on and after the Commitment Termination Date.

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

“Reserve Account Balance” means the balance of the Reserve Account Investments standing to the credit of the Reserve Account, including amounts irrevocably designated for deposit in the Reserve Account but excluding any portion thereof consisting of (i) investment income or (ii) amounts irrevocably designated for withdrawal from the Reserve Account for application as Principal Proceeds.

“Restaurant and Food Services Securities” means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from (a) a pool of franchise loans made to operators of franchises that provide goods and services relating to the restaurant and food services industries and (b) leases or subleases of equipment to such operators for use in the provision of such goods and services. They generally have the following characteristics: (1) the loans, leases or subleases have varying contractual maturities; (2) the loans 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.

“RMBS Mid-Prime Mortgage Securities” means RMBS Securities that entitle the holder thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such securities) on the cash flow from balances (including revolving balances) outstanding under loans or lines of credit secured by single family or multi-family residential real estate the proceeds of which loans or lines of credit are used to purchase such real estate or to purchase or construct dwellings thereon (or to refinance indebtedness previously so used), and that generally have 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 diversified pool of obligor credit risk; (3) the repayment stream on such balances does not depend on a contractual repayment schedule, with early repayment depending primarily on interest rates, availability of credit against a maximum line of credit and general economic matters; (4) the line of credit or loan may be secured by residential real estate with a market value (determined on the date of origination of such line of credit or loan) that is less than the original proceeds of such line of credit or loan; and (5) where applicable, the weighted average FICO Score with respect to the obligors on all such underlying loans is greater than 625 and less than 675.

“RMBS Prime Mortgage Securities” means RMBS Securities (other than Collateral Debt Securities that, if owned by the Issuer, would constitute RMBS Subprime Mortgage Securities or RMBS Mid-Prime Mortgage Securities) that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such securities) on the cash flow from residential mortgage loans secured (subject to permitted liens, easements and other encumbrances) by residential real estate (single or multifamily 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;

(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; and (5) where applicable, the weighted average FICO Score with respect to the obligors on all such underlying loans is 675 or higher.

“RMBS Second Lien Security” means an RMBS Security that, at the time of its acquisition by the Issuer, is backed or secured by an underlying pool of mortgage loans of which at least 40% are second or more junior lien loans.

“RMBS Securities” means RMBS Prime Mortgage Securities, RMBS Mid-Prime Mortgage Securities, RMBS Subprime Mortgage Securities, Home Equity Loan Securities and FHLMC/FNMA Guaranteed Securities.

“RMBS Subprime Mortgage Securities” means RMBS 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 such securities) on the cash flow from residential mortgage loans secured by residential real estate (single or multifamily 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; (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; and (5) the weighted average FICO Score with respect to the obligors on all such underlying loans is 625 or lower.

“Sale Proceeds” means all proceeds received as a result of sales of Collateral Debt Securities, Equity Securities, U.S. Agency Securities and Eligible Investments that have been pledged to the Trustee under the Indenture pursuant to a sale thereof in accordance with the provisions of the Indenture, or an Auction, net of any reasonable out of pocket expenses of the Collateral Manager and the Trustee in connection with any such sale.

“Servicer” means, with respect to any Collateral Debt Security (other than CDO Securities), 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 Security are made. For the purpose of the Servicer rating, a Servicer shall be deemed to be the largest primary servicer; *provided* that, for purposes of determining the ratings of a Servicer for purposes of the Investment Criteria, if such primary server is not rated, the ratings assigned to the “master servicer” for such Collateral Debt Security shall be used.

“Short Synthetic Security” means a Synthetic Security (which may include a CDS Agreement Transaction) pursuant to which the Issuer transfers the credit risk associated with the related Reference Obligation to the Synthetic Security Counterparty; *provided* that a Short Synthetic Security will not include an ABX Index Hedge Agreement and a Short Synthetic Security pursuant to which the issuer offsets another Synthetic Security.

“Small Business Loan Securities” means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from general purpose corporate loans made to “small business concerns” (generally within the meaning given to such term by regulations of the United States Small Business Administration), including but not limited to 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 Purpose Vehicle Jurisdiction” means (x) the Cayman Islands, the Bahamas, Bermuda, the Netherlands Antilles, the Channel Islands or (y) any other jurisdiction that is commonly used as the place of organization of special or limited purpose vehicles that issue Asset-Backed Securities, that generally impose no or nominal tax on the income of such special purpose vehicle and the designation of which as a Special Purpose Vehicle Jurisdiction satisfies the Rating Condition.

“Standard & Poor’s” means Standard & Poor’s Ratings Services, a division of The McGraw Hill Companies, Inc. and any successor or successors thereto.

“Standard & Poor’s Rating” has the meaning set forth in Schedule E.

“Standard & Poor’s Weighted Average Recovery Rate” means, as of any Measurement Date, the number, expressed as a percentage, obtained by summing the products obtained by *multiplying* the Principal Balance of each Collateral Debt Security, other than a Defaulted Security, by its “Applicable Recovery Rate” (determined for purposes of this definition pursuant to clause (b) of the definition of “Applicable Recovery Rate”), and *dividing* such sum by the Aggregate Principal Balance of all such Collateral Debt Securities.

“Step-Down Security” means a security which by the terms of the related Underlying Instrument provides for a decrease, in the case of a Fixed Rate Collateral Debt 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 (i) a Step-Down Security will not include any such security providing for payment of a constant rate of interest at all times after the date of acquisition by the Issuer or any such security where the decrease is linked to a clean-up call or certain events as laid out in the Underlying Instruments or (ii) with respect to which in calculating any Collateral Quality Test by reference to the spread (in the case of a floating rate Step-Down Security) or coupon (in the case of a fixed rate Step-Down Security) of a Step-Down Security, the spread or coupon on any date will be deemed to be the lowest spread or coupon, respectively, scheduled to apply to such Step-Down Security on or after such date.

“Step-Up Security” means a security which by the terms of the related Underlying Instrument provides for an increase, in the case of a Fixed Rate Collateral Debt Security, in the *per annum* interest rate on such security or, in the case of a Floating Rate Collateral Debt 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 Security will not include any such security (i) that provides for payment of a constant rate of interest at all times after the date of acquisition by the Issuer or any such security where the increase is linked to a clean-up call or certain events as laid out in the Underlying Instruments or (ii) with respect to which, in calculating any Collateral Quality Test that is determined in part by reference to the spread thereon (in the case of a floating rate Step-Up Security) or coupon thereon (in the case of a fixed rate Step-Up Security), the Collateral Manager elects to apply on the relevant Measurement Date the stated spread or coupon in effect on such date.

“Structured Settlement Securities” means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from receivables representing the right of litigation claimants to receive future scheduled payments under settlement agreements that are funded by annuity contracts, which receivables may have varying maturities.

“Student Loan Securities” means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from loans made to students (or their parents) to finance educational needs, generally having the following characteristics: (1) the loans have standardized terms; (2) the loans are obligations of numerous borrowers and accordingly represent a very diversified pool of obligor credit risk; and (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.

“Synthetic CDO Security” means any CDO Security that entitles the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of CDO Securities) on the market value of or cash flow from underlying assets of which 100% of its

aggregate principal balance (or notional balance) consists of one or more credit defaults swaps that reference a portfolio of Reference Obligations based upon the Notional Amount (or “Floating Rate Payer Calculation Amount” as such term is defined in the underlying credit default swap); *provided*, that (i) the characteristics of such portfolio of Reference Obligations including, without limitation, its portfolio characteristics, investment and reinvestment criteria and credit profile (e.g., probability of default recovery upon default and expected loss characteristics) shall be those normally associated with CDO Securities with current market practice; and (ii) the issuer invests the proceeds of such CDO Security in Eligible Investments to secure the issuer’s obligations under the credit default swaps. For purposes of this definition, Synthetic CDO Securities shall include Bespoke CDO Securities (as defined below).

“Synthetic Security” means any credit default swap (including any CDS Agreement Transaction), total return swap, credit linked note, derivative instrument, structured note or trust certificate purchased, or entered into, by the Issuer with or from a Synthetic Security Counterparty (including, without limitation, with the Credit Default Swap Counterparty under the Credit Default Swap Agreement) that provides for payments closely correlated to the default, recovery upon default and other expected loss characteristics of a Permitted Reference Obligation (other than the risk of default of the related Synthetic Security Counterparty), but that may provide for payments based on a maturity shorter than or a principal amount, interest rate, currency, premium, payment terms or other non-credit terms different from that of the related Reference Obligation; *provided* that (i) any “credit event” under any Synthetic Security that can result in termination and settlement of the Synthetic Security prior to its scheduled maturity date (a “Credit Event”) will not include restructuring, repudiation, moratorium, obligation default or obligation acceleration unless such Synthetic Security may be settled only through a physical settlement of a Deliverable Obligation to the Issuer, and not in cash; (ii) a Deemed Floating Asset Hedge Agreement entered into by the Issuer with respect to a Collateral Debt Security held by the Issuer will not constitute a Synthetic Security for purposes of this definition; (iii) if such Synthetic Security requires or permits physical settlement upon the occurrence of a Credit Event or otherwise by delivery of one or more deliverable obligations, each such deliverable obligation must itself be a Permitted Reference Obligation on the date the Issuer enters into such Synthetic Security; (iv) the acquisition, ownership or disposition of such Synthetic Security will not cause the Issuer to be treated as engaged in a trade or business in the United States for U.S. federal income tax purposes or otherwise subject the Issuer to net income tax and (v) amounts receivable by the Issuer will not be subject to withholding tax in respect of the Synthetic Security or the Synthetic Security Counterparty or the Reference Obligor is required to make “gross up” payments that cover the full amount of any such withholding tax.

“Synthetic Security Collateral” means, in connection with any Synthetic Security, (i) any floating rate security that is rated “AAA” by Standard & Poor’s or “AAA” by Fitch and “Aaa” by Moody’s and matures no later than the Stated Maturity, the expected average life of which does not exceed the expected average life of the related Reference Obligation by more than one year, and which is a credit card security that entitles the holders thereof to receive payments that depend on the cash flow from balances outstanding under revolving consumer credit card accounts, (ii) any Eligible Investment or any investment of a type described in the definition of “Eligible Investments” but with respect to which the counterparty thereto has a long term rating of not less than “A” by Standard & Poor’s, not less than “A” by Fitch and not less than “Aa3” by Moody’s (and, if rated “Aa3” by Moody’s, such rating is not on watch for possible downgrade by Moody’s) or a short term credit rating of not less than “A-1” by Standard & Poor’s, not less than “F1” by Fitch and “P-1” by Moody’s (and such rating is not on watch for possible downgrade by Moody’s) at the time of such investment, (iii) commercial paper maturing no later than the Business Day prior to the Distribution Date next succeeding the date of investment in such commercial paper 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), not less than “F1” by Fitch and not less than “A-1” by Standard & Poor’s or (iv) other investments the acquisition of which would satisfy the Rating Condition, in each case which mature no later than the Stated Maturity and on the date such Synthetic Security Collateral is acquired by the Issuer, such person (or the guarantor of such person’s obligations under such Synthetic Security) satisfies the Synthetic Security Counterparty Ratings Requirement.

“Synthetic Security Counterparty Defaulted Obligation” means a Synthetic Security (other than a Defaulted Synthetic Security) with respect to which:

- (a) the long-term debt obligations of such Synthetic Security Counterparty are rated less than “A3” by Moody’s (or, if rated “A3”, are on watch for possible downgrade by Moody’s) or the short-term debt

obligations of the Synthetic Security Counterparty are rated “D” or “SD” by Standard & Poor’s, or cease to be rated; *provided* that the foregoing shall not apply in the case of a Synthetic Security in respect of which the value of assets standing to the credit of the related Issuer Collateral Account (which value will be marked-to-market no less frequently than monthly) is at least equal to any termination payment that would be due to the Issuer upon the early termination of such Synthetic Security; or

(b) the Synthetic Security Counterparty has defaulted in the performance of any of its payment obligations under the Synthetic Security.

“Synthetic Security Counterparty Ratings Requirement” means a requirement which will be satisfied if (i) either (A) the long-term debt obligations of the Rating Determining Party with respect to the related Synthetic Security Counterparty are rated at least “Aa3” by Moody’s (and if rated “Aa3”, such rating is not on watch for possible downgrade) or (B)(1) the short-term debt obligations of the Rating Determining Party with respect to the related Synthetic Security Counterparty are rated at least “P-1” by Moody’s (and if rated “P-1”, such rating is not on watch for possible downgrade) and (2) the long-term debt obligations of such Rating Determining Party are rated at least “A1” by Moody’s (and if rated “A1”, such rating is not on watch for possible downgrade), (ii) either (A) the long-term debt obligations of the Rating Determining Party with respect to the related Synthetic Security Counterparty are rated at least “AA-” by Standard & Poor’s or (B) the short-term debt obligations of the Rating Determining Party with respect to the related Synthetic Security Counterparty are rated “A-1+” by Standard & Poor’s and (iii) either (A) the long-term debt obligations of the Rating Determining Party with respect to the related Synthetic Security Counterparty are rated at least “A” by Fitch or (B) the short-term debt obligations of the Rating Determining Party with respect to the related Synthetic Security Counterparty are rated at least “F1” by Fitch.

“Synthetic Security Discount Criteria” means a Synthetic Security with respect to which the difference between (i) and (ii) exceeds 2.00%, where (i) is the rate of the fixed premium payments in respect of the applicable Synthetic Security payable to the related protection seller and (ii) is (a) in the case of a Reference Obligation that pays interest at a floating rate above LIBOR or above another floating rate index for Dollar-denominated obligations, the greater of (x) the stated spread above such floating rate index at which interest accrues on the related underlying Reference Obligation and (y) the initial issuance spread or (b) in the case of a Reference Obligation that pays interest at a fixed rate, the deemed spread, whereby the deemed spread is the pricing spread over swaps.

“Target Return I” means, with respect to the holders of the Preference Shares, as of any Monthly Distribution Date, the aggregate amount required to be distributed in accordance with paragraph (18) under “Priority of Payments—Interest Proceeds” (for the related Interest Period only) 12.0% *per annum* on U.S.\$13,269,716.50 calculated on the basis of a 360 day year comprised of twelve 30 day months.

“Target Return II” means, with respect to each Quarterly Distribution Date, the discount rate of 17.0% *per annum* that would result in a net present value of zero, assuming (i) an aggregate amount of U.S.\$13,269,716.50 as the initial negative cash flow on the Closing Date and all distributions to the Holders of the Preference Shares on such Quarterly Distribution Date and each preceding Distribution Date as positive cash flows, (ii) the Closing Date as the initial date of calculation and (iii) the number of days to each subsequent Quarterly Distribution Date from the Closing Date being calculated on the basis of a 360-day year consisting of four 90-day quarters; provided that the number of days from the Closing Date to the first Quarterly Distribution Date shall be treated as 96 days.

“Tax Lien Securities” means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from a pool of tax obligations owed by businesses and individuals to state and municipal governmental taxing authorities, generally having the following characteristics: (1) the obligations have standardized payment terms and require minimum payments; (2) the tax obligations are obligations of numerous borrowers and accordingly represent a very diversified pool of obligor credit risk; and (3) the repayment stream on the obligation is primarily determined by a payment schedule entered into between the relevant tax authority and obligor, with early repayment on such obligation predominantly dependent upon interest rates and the income of the obligor following the commencement of amortization.

“Time Share Securities” means Asset-Backed Securities (other than RMBS Prime Mortgage Securities, RMBS Mid-Prime Mortgage Securities, RMBS Subprime 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 time share 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 having no penalties for early repayment.

“Tobacco Bonds” means Structured Settlement Securities resulting from tobacco-related litigation.

“Total Exposure” means with respect to any Synthetic Security structured as a credit default swap (including a CDS Agreement Transaction), the sum (without duplication) of (a) the maximum aggregate Credit Protection Payments (other than Interest Shortfalls) or other periodic payments and (b) the maximum net settlement amount (whether at the time funded or unfunded) that, in each case, the seller of protection could be required to pay or otherwise transfer to the buyer of protection 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 Synthetic Security.

“Total Reduction Amount” means, with respect to any Monthly Distribution Date, (a) the sum of (i) the Excess Notional Amount Liquidity for the related Determination Date (taking into account any amounts to be transferred from the Reserve Account to the Payment Account on the related Distribution Date for application in accordance with the Priority of Payments) plus (ii)(A) for purposes of paragraph (4)(a)(III) under “Priority of Payments—Principal Proceeds”, the remaining Principal Proceeds available after the application thereof on such Monthly Distribution Date pursuant to paragraphs (1) through (3) (inclusive) under “Priority of Payments—Principal Proceeds” or (B) for purposes of paragraph (5)(a)(III) under “Priority of Payments—Principal Proceeds”, the remaining Principal Proceeds available after the application thereof on such Monthly Distribution Date pursuant to paragraphs (1) through (4) (inclusive) under “Priority of Payments—Principal Proceeds” multiplied by (b)(i) with respect to any Monthly Distribution Date occurring prior to the last day of the Reinvestment Period, a percentage not exceeding 100% determined by the Collateral Manager in its sole discretion and notified to the Trustee on or prior to the related Determination Date or (ii) otherwise, 100%.

“Trading Plan” means series of sales and/or purchases of Collateral Debt Securities (a) that is completed within the lesser of ten Business Days and the period of time between the date on which the first purchase or sale is made pursuant to such Trading Plan and the next succeeding Determination Date, (b) that results in the purchase of Collateral Debt Securities having an Aggregate Principal Balance of not more than 5% of the Net Outstanding Portfolio Collateral Balance, (c) that satisfies, maintains or improves, the Investment Criteria and the Collateral Quality Tests. The time period for a Trading Plan shall commence on the first date on which the Issuer sells or purchases (or commits to sell or purchase) a Collateral Debt Security included in such Trading Plan and shall end on the last day on which the Issuer sells or purchases (or commits to sell or purchase) a Collateral Debt Security included in such Trading Plan. No more than one Trading Plan may be in effect at any time and the Issuer shall provide notice of any failed Trading Plan to Standard & Poor’s.

“Tranched ABX Index” means an index (1) constituted from reference obligations issued by 40 issuers of home equity loan securities culled from the ABX Index, (2) for which each underlying home equity loan security is rated either (x) “BBB” by S&P and “Baa2” by Moody’s or (y) “BBB-” by S&P and “Baa3” by Moody’s and (3) offering the Issuer the ability to obtain exposure at different attachment and detachment points in a tranched structure.

“Tranched ABX Index Synthetic Security” means a credit default swap whereby the Issuer gains credit exposure to the reference obligations comprising a Tranched ABX Index.

“Trust Preferred CDO Securities” means an Asset-Backed Security issued by an entity formed for the purpose of holding or investing and reinvesting in a pool of primarily trust preferred securities.

“Underlying Instruments” means the indenture or other agreement pursuant to which a Collateral Debt Security, Eligible Investment or Equity Security has been issued or created and each other agreement that governs the terms of or secures the obligations represented by such Collateral Debt Security, Eligible Investment or Equity Security or of which holders of such Collateral Debt Security, Eligible Investment or Equity Security are the beneficiaries.

“Uninvested Proceeds” means, at any time, the net proceeds received by the Issuer on the Closing Date from (x) the initial issuance of the Offered Securities (net of all expenses related to the offering of the Offered Securities) and (y) any net premium payable by the Interest Rate Hedge Counterparty to the Issuer pursuant to any Hedge Agreement, to the extent such proceeds have not been deposited in the Expense Account, the Reserve Account or invested in Collateral Debt Securities (including the deposit of any required amounts in a Synthetic Security Counterparty Account and including the purchase of accrued interest on any Collateral Debt Security). Gains paid to the Issuer on the Closing Date with respect to the sale of U.S. treasury securities acquired in connection with warehousing arrangements entered into prior to the Closing Date shall also be treated as “Uninvested Proceeds” and shall be deposited in the Reserve Account on the Closing Date.

“U.S. Agency Guaranteed Securities” means any Asset-Backed Securities as to which the timely payment of interest when due, and the payment of principal no later than stated legal maturity, is (a) (1) fully and unconditionally guaranteed by a U.S. federal agency the obligations of which are backed by the full faith and credit of the United States, but only if such guarantee (x) expires no earlier than such stated maturity and (y) is independent of the performance by the obligor on the relevant Asset-Backed Security or (b) in the judgment of the Collateral Manager, dependent upon the credit of a U.S. federal agency backed by the full faith and credit of the United States; *provided* that any Asset-Backed Security falling within this definition will be excluded from the definition of each other type of Asset-Backed Security.

“U.S. Agency Securities” means Registered obligations of (i) the U.S. Treasury, (ii) any U.S. federal agency or (iii)(A) Fannie Mae, (B) SLM Corporation or (C) Freddie Mac, in each case with a stated maturity that does not exceed Stated Maturity of the Notes.

“VFN Ratings Criteria” means criteria that will be satisfied as of any date with respect to a Class A-1 Noteholder if (a) such Class A-1 Noteholder (i) has a short-term debt rating of “A-1+” by S&P and a long-term debt rating of at least “AA” by S&P, (ii) has a short-term debt rating of at least “F1” by Fitch and a long-term debt rating of at least “A” by Fitch and (iii) has a short-term debt rating of at least “P-1” by Moody’s and a long-term debt rating of at least “Aa3” (and such rating is not on watch for possible downgrade) by Moody’s, or (b) the obligations of such Class A-1 Noteholder under this Agreement are (or, upon such person becoming a Class A-1 Noteholder, will be) fully and unconditionally guaranteed by another person that satisfies the ratings requirements set forth in clause (a) of this definition

“Weighted Average Premium/Spread” means, as of any Measurement Date, a number (rounded up to the next 0.001%) equal to (a) the sum of (i) the excess of (1) the sum of the products obtained by *multiplying* (A) the quoted fixed rate premium percentage per annum payable by the applicable Synthetic Security Counterparty to the Issuer under each Synthetic Security structured as a credit default swap (including any CDS Agreement Transaction) by (B) the Notional Amount of such Synthetic Security over (2) the sum of the products obtained by *multiplying* (A) the fixed rate premium percentage (without regard to the intermediation fee) per annum payable by the Issuer to any counterparty to an ABX Index Hedge Agreement by (B) the Notional Amount of the exposure hedged by such ABX Index Hedge Agreement and (ii) the sum of the products obtained by *multiplying* (A) the Current Spread on each Collateral Debt Security that is a Floating Rate Collateral Debt Security or Deemed Floating Rate Collateral Debt Security (other than a Defaulted Security or a Written-Down Security) as of such date by (B) the Principal Balance of such Collateral Debt Security as of such date, *divided by* (b) the sum of (i) the excess of (A) the sum of the Notional Amount of each Synthetic Security structured as a credit default swap (including any CDS Agreement Transaction) over (B) the sum of the Notional Amount of the exposure hedged by ABX Index Hedge Agreements and (ii) the Aggregate Principal Balance of all Collateral Debt Securities that are Floating Rate Collateral Debt Securities or Deemed Floating Rate Collateral Debt Securities (excluding all Defaulted Securities and Written-Down Securities).

“Written-Down Security” means any Collateral Debt Security (other than a Defaulted Security) as to which the aggregate par amount of such Collateral Debt Security and all other securities secured by the same pool of collateral that rank *pari passu* with or senior in priority of payment to such Collateral Debt Security exceeds the aggregate par

amount (including reserved interest or other amounts available for overcollateralization) of all collateral securing such securities (excluding defaulted collateral) as determined by the Collateral Manager using customary procedures and information available in servicer reports received by the Trustee related to such Written-Down Security; *provided* that the Trustee shall, upon receipt of written notice of such event, notify Standard's & Poor's of any Collateral Debt Security that becomes a Written Down-Security.

“Zero Coupon Bond” means a security (other than a Step-Up Security) that, pursuant to the terms of its Underlying Instruments, on the date on which it is purchased by the Issuer, does not provide for the periodic payment of interest or provides that all payments of interest will be deferred until the final maturity thereof.

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SCHEDULE A

Part I

Moody's Recovery Rate Matrix

(see definition of "Applicable Recovery Rate")

A. ABS Type Diversified Securities

Percentage of Total Capitalization	Moody's Rating					
	Aaa	Aa	A	Baa	Ba	B
Greater than 70%	85%	80%	70%	60%	50%	40%
Less than or equal to 70%, but greater than 10%	75%	70%	60%	50%	40%	30%
Less than or equal to 10%	70%	65%	55%	45%	35%	25%

B. ABS Type Residential Securities

Percentage of Total Capitalization	Moody's Rating					
	Aaa	Aa	A	Baa	Ba	B
Greater than 70%	85%	80%	65%	55%	45%	30%
Less than or equal to 70%, but greater than 10%	75%	70%	55%	45%	35%	25%
Less than or equal to 10%, but greater than 5%	65%	55%	45%	40%	30%	20%
Less than or equal to 5%, but greater than 2%	55%	45%	40%	35%	25%	15%
Less than or equal to 2%	45%	35%	30%	25%	15%	10%

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%	05%

D. Low-Diversity CDO Securities and CDO Securities with an 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%	07%	04%

E. High-Diversity CDO Securities and CDO Securities with an Asset Correlation of less than 15%

Percentage of Total Capitalization	Moody's Rating					
	Aaa	Aa	A	Baa	Ba	B
Greater than 70%	85%	80%	65%	55%	45%	30%
Less than or equal to 70%, but greater than 10%	75%	70%	60%	50%	40%	25%
Less than or equal to 10%, but greater than 5%	65%	55%	50%	40%	30%	20%
Less than or equal to 5%, but greater than 2%	55%	45%	40%	35%	25%	10%
Less than or equal to 2%	45%	35%	30%	25%	10%	5%

- F. If the Collateral Debt Security is a Synthetic Security (other than a CDS Agreement Transaction or other Synthetic Security structured as a credit default swap that is entered into pursuant to a Form-Approved Synthetic Security), the recovery rate thereof will be assigned by Moody's upon the acquisition of such Synthetic Security by the Issuer.**
- G. If the Collateral Debt Security is a CDS Agreement Transaction or other Synthetic Security structured as a credit default swap that is entered into pursuant to a Form-Approved Synthetic Security, the recovery rate thereof will be the same as the Moody's recovery rate of the underlying Reference Obligation.**
- H. If the Collateral Debt Security is a Tranching ABX Index Synthetic Security, the recovery rate thereof will be assigned by Moody's upon the acquisition of such Tranching ABX Index Synthetic Security by the Issuer.**

Part II

Standard & Poor's Recovery Rate Matrix

- i. If the Collateral Debt Security (other than a Synthetic Security, REIT Debt Security, Mortgage Finance Company Security, Excepted Security or REIT Debt Security guaranteed by a corporate guarantor) is the senior-most tranche of securities issued by the issuer of such Collateral Debt Security or is a U.S. Agency Guaranteed Security or a U.S. Agency Security, the recovery rate is as follows, *provided* that for purposes of the Standard & Poor's recovery rate matrix, the applicable rating shall be the Standard & Poor's Rating of the Collateral Debt Security at the time of issuance:**

Standard & Poor's Rating	Recovery Rate Liabilities
--------------------------	---------------------------

Standard & Poor's Rating	Recovery Rate Liabilities						
Assets	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%

ii. If the Collateral Debt Security (other than a Synthetic Security, REIT Debt Security, Mortgage Finance Company Security, Excepted Security or REIT Debt Security guaranteed by a corporate guarantor) (1) is not the senior-most tranche of securities issued by the issuer of such Collateral Debt Security or (2) is the senior-most tranche of securities issued by the issuer of such Collateral Debt Security and such Collateral Debt Security has a Standard & Poor's Rating of "BBB-" or below, the recovery rate is as follows, *provided* that for purposes of the Standard & Poor's recovery rate matrix, the applicable rating shall be the Standard & Poor's Rating of the Collateral Debt Security at the time of issuance:

Standard & Poor's Rating	Recovery Rate Liabilities						
Assets	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%

iii. If such Collateral Debt Security is a Mortgage Finance Company Security, the recovery rate will be as specified below:

Mortgage Finance Company Security	Recovery Rate
Senior Secured	40%
Senior Unsecured	25%
Subordinated	15%

iv. If the Collateral Debt Security is a Synthetic Security (other than a CDS Agreement Transaction or other Synthetic Security structured as a credit default swap that is entered into pursuant to a Form-Approved Synthetic Security) or an Excepted Security, the recovery rate thereof will be assigned by Standard & Poor's upon the acquisition of such Synthetic Security by the Issuer.

v. If the Collateral Debt Security is a CDS Agreement Transaction or other Synthetic Security structured as a credit default swap that is entered into pursuant to a Form-Approved Synthetic Security, the recovery rate thereof will be the same as the Standard & Poor's recovery rate of the underlying Reference Obligation.

vi. If the Collateral Debt Security is a REIT Debt Security, the recovery rate will be 40%.

vii. If the Collateral Debt Security (other than a Synthetic Security, REIT Debt Security, Mortgage Finance Company Security, Excepted Security or REIT Debt Security guaranteed by a corporate guarantor) is guaranteed by (1) an insurance company that has been assigned an Insurer Financial Enhancement Rating ("FER") by Standard & Poor's (including Collateral Debt Securities guaranteed by a monoline financial insurance company that has been assigned a FER), the recovery rate will be 50% and (2) a company that has not been assigned an Insurer FER by Standard & Poor's the recovery rate will be 40%.

SCHEDULE B

STANDARD & POOR'S ASSET CLASSES

Part A

3. Consumer ABS
Automobile Loan Receivable Securities
Automobile Lease Receivable Securities
Car Rental Receivables Securities
Credit Card Securities
Student Loan Securities
4. Commercial ABS
Cargo Securities
Equipment Leasing Securities
Aircraft Leasing Securities
Small Business Loan Securities
Restaurant and Food Services Securities
Tobacco Bonds
5. Non-RE-REMIC RMBS
Manufactured Housing Loan Securities
6. Non-RE-REMIC CMBS
CMBS – Conduit
CMBS – Credit Tenant Lease
CMBS – Large Loan
CMBS – Single Borrower
CMBS – Single Property
7. CDO Cashflow Securities
Cash Flow CBO – at least 80% High Yield Corporate
Cash Flow CBO – at least 80% Investment Grade Corporate
Cash Flow CLO – at least 80% High Yield Corporate
Cash Flow CLO – at least 80% Investment Grade Corporate
8. REITs
REIT – Multifamily & Mobile Home Park
REIT – Retail
REIT – Hospitality
REIT – Office
REIT – Industrial
REIT – Healthcare
REIT – Warehouse
REIT – Self Storage
REIT – Mixed Use
9. Real Estate Operating Companies

Part B

Residential Mortgages

Residential “A”

Residential “B/C”

Home equity loans

Part C

Specialty Structured

Stadium Financings

Project Finance

Future flows

SCHEDULE C

STANDARD & POOR'S TYPES OF ASSET-BACKED SECURITIES INELIGIBLE FOR NOTCHING

The following types of Asset-Backed Securities are not eligible to be notched in accordance with Part II of Schedule D unless otherwise agreed to by Standard & Poor's. Accordingly, the Standard & Poor's Rating of such Asset-Backed Securities must be determined pursuant to clause (i) or (ii) of "Standard & Poor's Rating" in this Offering Memorandum. This Schedule may be modified from time to time by Standard & Poor's and its applicability should be confirmed with Standard & Poor's prior to use.

1. Non-U.S. Structured Finance Securities
2. Guaranteed Securities
3. CDOs of Structured Finance and Real Estate Securities
4. CBOs of CDOs
5. CLOs of Distressed Debt
6. Mutual Fund Fee Securities
7. Catastrophe Bonds
8. First Loss Tranches of any Securitization
9. Synthetics other than Form-Approved Synthetic Securities
10. Synthetic CBOs
11. Combination Notes
12. RE-REMICS
13. Market value CDOs
14. Net Interest Margin Securities (NIMs)
15. Any asset class not listed in Part II of Schedule D
16. Interest Only Securities

SCHEDULE D

PART I

MOODY'S NOTCHING OF ASSET BACKED SECURITIES

The following notching conventions are appropriate for Standard & Poor's-only rated tranches. The figures represent the number of notches to be subtracted from the Standard & Poor's rating. (For example, a "1" applied to a Standard & Poor's rating of "BBB" implies a Moody's rating of "Baa3".)

ASSET CLASS	"AAA" to "AA-"	"A+" TO "BBB-"	Below "BBB-"
Asset Backed			
Agricultural and Industrial Equipment loans	1	2	3
Aircraft and Auto leases and Car Rental Receivable Securities	2	3	4
Arena and Stadium	1	2	3
Financing Auto loan	1	2	3
Boat, Motorcycle, RV, Truck	1	2	3
Computer, Equipment and Small-ticket item leases	1	2	3
Consumer Loans	1	3	4
Credit Card	1	2	3
Cross-border transactions	1	2	3
Entertainment Royalties	1	2	3
Floorplan	1	2	3
Franchise Loans	1	2	4
Future Receivables	1	1	2
Health Care Receivables	1	2	3
Manufactured Housing	1	2	3
Mutual Fund Fees	1	2	4
Small Business Loans	1	2	3
Stranded Utilities	1	2	3
Structured Settlements	1	2	3
Student Loan	1	2	3
Tax Liens	1	2	3
Timeshare Securities	1	2	3
Trade Receivables	2	3	4

ASSET CLASS	"AAA"	"AA+" TO "BBB-"	Below "BBB-"
Jumbo	1	2	3
Alt-A or mixed pools	1	3	4
HEL (including Residential A, Residential B&C)	1	2	3

The following notching conventions are with respect to Fitch:

Residential Mortgage Related	"AAA"	"AA+" TO "BBB-"	Below "BBB-"
Jumbo	1	2	3
Alt-A or mixed pools	1	3	5
HEL (including RMBS Mid-Prime, Residential B&C)	<i>No notching</i>	<i>No notching</i>	<i>No notching</i>

For dual-rated Jumbo A or Alt-A transactions, take the lower of the two ratings on the security, apply the appropriate single-rated notching guideline as set forth in the definition of Moody's Rating, then go up by ½ notch. For dual-rated HEL (including RMBS Mid-Prime, Residential B&C) transactions, apply the Standard & Poor's-only rated tranche notching guidelines as set forth above.

The following CMBS notching conventions are with respect to S&P and Fitch.

ASSET CLASS	Tranche Rated by Fitch and S&P; no tranche in deal rated by Moody's	Tranche Rated by Fitch and/or S&P; at least one other tranche in deal rated by Moody's
Commercial Mortgage Backed Securities		
Conduit ¹	2 notches from lower of Fitch/S&P	1.5 ² notches from lower of Fitch/S&P
Credit Tenant Lease	Follow corporate notching practice	Follow corporate notching practice
Large Loan	<i>No Notching Permitted</i>	

¹ For this purpose, conduits are defined as fixed rate, sequential pay, multi-borrower transactions having a Herfindahl score of 40 or higher at the loan level with all collateral (conduit loans, A notes, large loans, CTLs and any other real estate collateral) factored in.

² A 1.5 haircut implies, for example, that if the S&P/Fitch rating were BBB, then the Moody's rating factor would be halfway between the Baa3 and Ba1 rating factors.

PART II

STANDARD & POOR'S NOTCHING OF ASSET-BACKED SECURITIES

The Standard & Poor's Rating of a Collateral Debt Security that is not of a type specified on Schedule C and that has not been assigned a rating by Standard & Poor's may be determined as set forth below.

- A. If such Collateral Debt Security is rated by Moody's and Fitch, the Standard & Poor's Rating of such Collateral Debt Security shall be the Standard & Poor's equivalent of the rating that is the number of subcategories specified in Table A below the lowest of the ratings assigned by Moody's and Fitch.
- B. If the Collateral Debt Security is rated by Moody's or Fitch, the Standard & Poor's Rating of such Collateral Debt Security shall be the Standard & Poor's equivalent of the rating that is one subcategory below the rating that is the number of subcategories specified in Table A below the rating assigned by Moody's or Fitch.

This Schedule may be modified from time to time by Standard & Poor's and its applicability should be confirmed with Standard & Poor's prior to use.

TABLE A

	Asset-Backed Securities issued prior to August 1, 2001		Asset-Backed Securities issued on or after August 1, 2001	
	(Lowest) current rating is:		(Lowest) current rating is:	
	"BBB-" or its equivalent or higher	Below "BBB-" or its equivalent	"BBB-" or its equivalent or higher	Below "BBB-" or its equivalent
1. Consumer ABS Automobile Loan Receivable Securities Automobile Lease Receivable Securities Car Rental Receivables Securities Credit Card Securities Healthcare Securities Student Loan Securities	-1	-2	-2	-3
2. Commercial ABS Cargo Securities Equipment Leasing Securities Franchise Securities Aircraft Leasing Securities Small Business Loan Securities Restaurant and Food Services Securities Tobacco Litigation Securities	-1	-2	-2	-3
3. Non-Re-REMIC RMBS Manufactured Housing Loan Securities	-1	-2	-2	-3

	Asset-Backed Securities issued prior to August 1, 2001		Asset-Backed Securities issued on or after August 1, 2001	
	(Lowest) current rating is:		(Lowest) current rating is:	
	"BBB-" or its equivalent or higher	Below "BBB-" or its equivalent	"BBB-" or its equivalent or higher	Below "BBB-" or its equivalent
4. Non-Re-REMIC CMBS CMBS – Conduit CMBS – Credit Tenant Lease CMBS – Large Loan CMBS – Single Borrower CMBS – Single Property	-1	-2	-2	-3
5. CDO/CLO Cashflow Securities Cash Flow CBO – at least 80% High Yield Corporate Cash Flow CBO – at least 80% Investment Grade Corporate Cash Flow CLO – at least 80% High Yield Corporate Cash Flow CLO – at least 80% Investment Grade Corporate	-1	-2	-2	-3
6. REITs REIT – Multifamily & Mobile Home Park REIT – Retail REIT – Hotel REIT – Hospitality REIT – Office REIT – Industrial REIT – Healthcare REIT – Warehouse REIT – Self Storage REIT – Mixed Use	-1	-2	-2	-3
7. Specialty Structured Stadium Financings Project Finance Future flows	-3	-4	-3	-4
8. Residential Mortgages Residential "A" Residential "B/C" Home equity loans	-1	-2	-2	-3
9. Real Estate Operating Companies	-1	-2	-2	-3

As of December 10, 2001

SCHEDULE E

RATINGS DEFINITIONS

The “Moody’s Rating” of any Collateral Debt Security will be determined as follows:

(i) (x) if such Collateral Debt Security is publicly rated by Moody’s, the Moody’s Rating shall be such rating, or (y) if such Collateral Debt Security is not publicly rated by Moody’s, but the Issuer or the Collateral Manager on behalf of the Issuer has requested that Moody’s assign a rating to such Collateral Debt Security, the Moody’s Rating shall be the rating so assigned by Moody’s;

(ii) with respect to an Asset-Backed Security or REIT Debt Security, if such Asset-Backed Security or REIT Debt Security is not publicly rated by Moody’s and Moody’s has not assigned a rating according to (i)(y) above, then the Moody’s Rating of such Asset-Backed Security or REIT Debt Security may be determined using any one of the methods below:

(A) with respect to any ABS Type Residential Security not publicly rated by Moody’s, if such ABS Type Residential Security is publicly rated by Standard & Poor’s, then the Moody’s Rating thereof will be (i) one subcategory below the Moody’s equivalent rating assigned by Standard & Poor’s if the rating assigned by Standard & Poor’s is “AAA”; (ii) two rating subcategories (or, in the case of Alt-A or mixed pool RMBS Securities, three rating subcategories) below the Moody’s equivalent rating assigned by Standard & Poor’s if the rating assigned by Standard & Poor’s is below “AAA” but above “BB+”; and (iii) three rating subcategories (or, in the case of Alt-A or mixed pool RMBS Securities, four rating subcategories) below the Moody’s equivalent rating assigned by Standard & Poor’s if the rating assigned by Standard & Poor’s is below “BBB-”;

(B) with respect to any CMBS Conduit Security that does not have a Moody’s rating, (x) if Moody’s has rated a tranche or class of CMBS Conduit Security senior to the relevant Issue, then the Moody’s Rating thereof shall be one and one-half rating subcategories below the Moody’s equivalent rating assigned by Standard & Poor’s for purposes of determining the Moody’s Rating Factor and one rating subcategory below the Moody’s equivalent rating assigned by Standard & Poor’s for all other purposes and (y) if Moody’s has not rated any such tranche or Class and Standard & Poor’s has rated the subject CMBS Conduit Security, then the Moody’s Rating thereof will be two rating subcategories below the Moody’s equivalent rating assigned by Standard & Poor’s;

(C) with respect to notched ratings on any other type of Asset-Backed Securities, the Moody’s Rating shall be determined in conjunction with the notching conventions set forth in Part I of Schedule A; and

(D) with respect to any other type of Asset-Backed Securities or REIT Debt Securities designated as a Specified Type after the date hereof upon notification from the Collateral Manager to the Trustee and written confirmation by Moody’s to the Issuer, the Trustee and the Collateral Manager that such designation satisfies the Rating Condition, pursuant to any method specified by Moody’s;

(iii) with respect to any Mortgage Finance Company Security or corporate guarantees on Asset-Backed Securities or REIT Debt Securities, if such Mortgage Finance Company Securities or corporate guarantees are not publicly rated by Moody’s but another security or obligation of the issuer or guarantor thereof (an “other security”) is publicly rated by Moody’s, and no rating has been assigned in accordance with clause (i) above, the Moody’s Rating of such Mortgage Finance Company Security or corporate guarantee shall be determined as follows:

(A) if the Mortgage Finance Company Security or corporate guarantee is a senior secured obligation of the issuer, guarantor or obligor and the other security is also a senior secured

obligation, the Moody's Rating of such Mortgage Finance Company Security or corporate guarantee shall be the rating of the other security;

(B) if the Mortgage Finance Company Security or corporate guarantee is a senior unsecured obligation of the issuer, guarantor or obligor and the other security is a senior secured obligation, the Moody's Rating of such Mortgage Finance Company Security or corporate guarantee shall be one rating subcategory below the rating of the other security;

(C) if the Mortgage Finance Company Security or corporate guarantee is a subordinated obligation of the issuer, guarantor or obligor and the other security is a senior secured obligation that is:

(D) rated "Ba3" or higher by Moody's, the Moody's Rating of such Mortgage Finance Company Security or corporate guarantee shall be three rating subcategories below the rating of the other security; or

(E) rated "B1" or lower by Moody's, the Moody's Rating of such Mortgage Finance Company Security or corporate guarantee shall be two rating subcategories below the rating of the other security;

(F) if the Mortgage Finance Company Security or corporate guarantee is a senior secured obligation of the issuer, guarantor or obligor and the other security is a senior unsecured obligation that is:

(G) rated "Baa3" or higher by Moody's, the Moody's Rating of such Mortgage Finance Company Security or corporate guarantee shall be the rating of the other security; or

(H) rated "Ba1" or lower by Moody's, the Moody's Rating of such Mortgage Finance Company Security or corporate guarantee shall be one rating subcategory above the rating of the other security;

(I) if the Mortgage Finance Company Security or corporate guarantee is a senior unsecured obligation of the issuer, guarantor or obligor and the other security is also a senior unsecured obligation, the Moody's Rating of such Mortgage Finance Company Security or corporate guarantee shall be the rating of the other security;

(J) if the Mortgage Finance Company Security or corporate guarantee is a subordinated obligation of the issuer, guarantor or obligor and the other security is a senior unsecured obligation that is:

(K) rated "B1" or higher by Moody's, the Moody's Rating of such Mortgage Finance Company Security or corporate guarantee shall be two rating subcategories below the rating of the other security; or

(L) rated "B2" or lower by Moody's, the Moody's Rating of such Mortgage Finance Company Security or corporate guarantee shall be one rating subcategory below the rating of the other security;

(M) if the Mortgage Finance Company Security or corporate guarantee is a senior secured obligation of the issuer, guarantor or obligor and the other security is a subordinated obligation that is:

(N) rated "Baa3" or higher by Moody's, the Moody's Rating of such Mortgage Finance Company Security or corporate guarantee shall be one rating subcategory above the rating of the other security;

(O) rated below “Baa3” but not rated “B3” by Moody’s, the Moody’s Rating of such Mortgage Finance Company Security or corporate guarantee shall be two rating subcategories above the rating of the other security; or

(P) rated “B3” by Moody’s, the Moody’s Rating of such Mortgage Finance Company Security or corporate guarantee shall be “B2”;

(Q) if a corporate guarantee is a senior unsecured obligation of the issuer, guarantor or obligor and the other security is a subordinated obligation that is:

(R) rated “Baa3” or higher by Moody’s, the Moody’s Rating of such Mortgage Finance Company Security or corporate guarantee shall be one rating subcategory above the rating of the other security; or

(S) rated “Ba1” or lower by Moody’s, the Moody’s Rating of such Mortgage Finance Company Security or corporate guarantee shall also be one rating subcategory above the rating of the other security; and

(T) if the Collateral Debt Security is a subordinated obligation of the issuer, guarantor or obligor and the other security is also a subordinated obligation, the Moody’s Rating of such Mortgage Finance Company Security or corporate guarantee shall be the rating of the other security;

(iv) with respect to Mortgage Finance Company Securities or corporate guarantees issued by U.S., U.K. or Canadian issuers or guarantors or by any other Qualifying Foreign Obligor, if such Mortgage Finance Company Security or corporate guarantee does not have a Moody’s Rating, and no other security or obligation of the issuer or guarantor thereof is rated by Moody’s, then the Moody’s Rating of such Mortgage Finance Company Security or corporate guarantee may be determined using any one of the methods below:

(A) (1) if such Mortgage Finance Company Security or corporate guarantee is publicly rated by Standard & Poor’s, then the Moody’s Rating of such Mortgage Finance Company Security or corporate guarantee shall be (x) one rating subcategory below the Moody’s equivalent of the rating assigned by Standard & Poor’s if such security is rated “BBB-” or higher by Standard & Poor’s and (y) two subcategories below the Moody’s equivalent of the rating assigned by Standard & Poor’s if such security is rated “BB+” or lower by Standard & Poor’s; and

(B) if such Mortgage Finance Company Security or corporate guarantee is not publicly rated by Standard & Poor’s but another security or obligation of the issuer is publicly rated by Standard & Poor’s (a “parallel security”), then the Moody’s equivalent of the rating of such parallel security will be determined in accordance with the methodology set forth in subclause (1) above, and the Moody’s Rating of such Mortgage Finance Company Security or corporate guarantee will be determined in accordance with the methodology set forth in clause (iii) above (for such purpose treating the parallel security as if it were rated by Moody’s at the rating determined pursuant to this subclause (2));

(C) if such Mortgage Finance Company Security or corporate guarantee does not have a Moody’s Rating or is not publicly rated by Standard & Poor’s, and no other security or obligation of the guarantor has a Moody’s Rating or is publicly rated by Standard & Poor’s, then the Issuer or the Collateral Manager on behalf of the Issuer, may present such Mortgage Finance Company Security or corporate guarantee to Moody’s for an estimate of such Collateral Debt Security’s rating factor, from which its corresponding Moody’s rating may be determined, which shall be its Moody’s Rating;

(D) with respect to a Mortgage Finance Company Security or corporate guarantee issued by a U.S. corporation, if (1) neither the issuer nor any of its Affiliates is subject to reorganization or bankruptcy proceedings, (2) no debt securities or obligations of the issuer are in default, (3) none

of the issuer, guarantor or any of their Affiliates have defaulted on any debt during the past two years, (4) the issuer or guarantor has been in existence for the past five years, (5) the issuer or guarantor is current on any cumulative dividends, (6) the fixed-charge ratio for the issuer or guarantor exceeds 125% for each of the past two fiscal years and for the most recent quarter, (7) the issuer or guarantor had a net annual profit before tax in the past fiscal year and the most recent quarter and (8) the annual financial statements of the issuer or guarantor are unqualified and certified by a firm of independent accountants of national reputation, and quarterly statements are unaudited but signed by a corporate officer, the Moody's Rating of such Mortgage Finance Company Security or corporate guarantee will be "B3";

(E) with respect to a Mortgage Finance Company Security or corporate guarantee issued by a non-U.S. issuer, if (1) none of the issuer, guarantor or any of their Affiliates is subject to reorganization or bankruptcy proceedings and (2) no debt security or obligation of the issuer or guarantor has been in default during the past two years, the Moody's Rating of such Mortgage Finance Company Security or corporate guarantee will be "Caa2"; and

(F) if a debt security or obligation of the issuer or guarantor has been in default during the past two years, the Moody's Rating of such Mortgage Finance Company Security or corporate guarantee will be "Ca";

provided that (I) in respect of any U.S. Agency Guaranteed Security or FHLMC/FNMA Guaranteed Security, if such U.S. Agency Guaranteed Security or FHLMC/FNMA Guaranteed Security is not assigned a Moody's Rating pursuant to clause (i) above, the Moody's Rating will be the rating assigned to the relevant guarantor of such U.S. Agency Guaranteed Security or FHLMC/FNMA Guaranteed Security by Moody's, (II) the Moody's Rating of any Moody's Notching Approved Security shall be one rating subcategory below the Moody's Rating that would be applicable to such Collateral Debt Security if determined in accordance with the foregoing, (III) the ratings of no more than 10% of the Aggregate Principal Balance of all Collateral Debt Securities that are not Moody's Notching Approved Securities may be assigned rating factors derived via notching from single-rated instruments, (IV) with respect to any one Rating Agency, the single-rated notched bucket for Collateral Debt Securities that are not Moody's Notching Approved Securities may be no larger than 7.5% of the Aggregate Principal Balance of all Collateral Debt Securities, (V) the Aggregate Principal Balance of Collateral Debt Securities the Moody's Rating of which is based on a Standard & Poor's or Fitch rating may not exceed (1) with respect to Collateral Debt Securities that are not Moody's Notching Approved Securities, 20% of the Aggregate Principal Balance of all Collateral Debt Securities and (2) with respect to Collateral Debt Securities that are Moody's Notching Approved Securities, 20% of the Aggregate Principal Balance of all Collateral Debt Securities, and the balance of the Collateral Debt Securities must be rated by Moody's or assigned Moody's rating estimates, (VI) other than for the purposes of paragraph (5) of the Eligibility Criteria, if a Collateral Debt Security (A) is placed on a watch list for possible upgrade by Moody's, the Moody's Rating applicable to such Collateral Debt Security shall be one rating subcategory above the Moody's Rating applicable to such Collateral Debt Security immediately prior to such Collateral Debt Security being placed on such watch list and (B) if a Collateral Debt Security is placed on a watch list for possible downgrade by Moody's, the Moody's Rating applicable to such Collateral Debt Security shall be one rating subcategory (or, in the case of a Collateral Debt Security (other than any Bank Guaranteed Security, Insurance Company Guaranteed Security or Mortgage Finance Company Security) that would otherwise have a Moody's Rating below "Aaa", two rating subcategories) below the Moody's Rating applicable to such Collateral Debt Security immediately prior to such Collateral Debt Security being placed on such watch list and (VII) the Moody's Rating of any Form-Approved Synthetic Security shall be the Moody's Rating that would be applicable to the related Reference Obligation if determined in accordance with the foregoing. Additional criteria with respect to the determination of the Moody's Rating will be set forth in the Indenture.

The "Standard & Poor's Rating" of:

(a) any Asset-Backed Security or REIT Debt Security will be determined as follows:

(i) if Standard & Poor's has assigned a rating to such Collateral Debt Security either publicly or privately (*provided* that with respect to a private or confidential rating, consent of the party that obtained such rating shall be provided to Standard & Poor's), the Standard & Poor's Rating shall be the rating

assigned thereto by Standard & Poor's (or, in the case of a REIT Debt Security, the issuer credit rating assigned by Standard & Poor's);

(ii) if such Collateral Debt Security is not rated by Standard & Poor's but the Issuer or the Collateral Manager on behalf of the Issuer has requested that Standard & Poor's assign a rating to such Collateral Debt Security, the Standard & Poor's Rating shall be the rating so assigned by Standard & Poor's; *provided* that pending receipt from Standard & Poor's of such rating, (x) if such Collateral Debt Security is of a type listed on Schedule C or is not eligible for notching in accordance with Part II of Schedule D, (1) such Collateral Debt Security shall have a Standard & Poor's Rating of "CCC-" or (2) if a Collateral Manager Estimate is permitted pursuant to the definition thereof, such Collateral Manager Estimate and (y) if such Collateral Debt Security is not of a type listed on Schedule C and is eligible for notching in accordance with Part II of Schedule D, the Standard & Poor's Rating of such Collateral Debt Security shall be the rating assigned in accordance with Part II of Schedule D until such time as Standard & Poor's shall have assigned a rating thereto;

(iii) if such Collateral Debt Security is a Collateral Debt Security that has not been assigned a rating by Standard & Poor's pursuant to clause (i) or (ii) above, but is guaranteed by a corporate guarantee (which meets the then current publicly available guarantee published by Standard & Poor's), the issuer of which is rated by Standard & Poor's, the Standard & Poor's Rating shall be the rating so assigned to such guarantor; and

(iv) if such Collateral Debt Security is a Collateral Debt Security that has not been assigned a rating by Standard & Poor's pursuant to clause (i), (ii) or (iii) above, and is not of a type listed on Schedule C, the Standard & Poor's Rating of such Collateral Debt Security shall be the rating determined in accordance with Part II of Schedule D; *provided* that if any Collateral Debt Security shall, at the time of its purchase by the Issuer, be on watch for a possible upgrade or downgrade by either Moody's or Fitch, the Standard & Poor's Rating of such Collateral Debt Security shall be one subcategory above or below, respectively, the rating otherwise assigned to such Collateral Debt Security in accordance with Part II of Schedule D;

(b) any Mortgage Finance Company Security will be determined as follows:

(i) if there is an issuer credit rating of the issuer of such Mortgage Finance Company Security, or a guarantor that unconditionally and irrevocably guarantees the full payment of principal and interest on such Collateral Debt Security (with such form of guarantee meeting Standard & Poor's then-current criteria for guarantees), then the Standard & Poor's Rating of such Mortgage Finance Company Security shall be the issuer rating of such issuer or such guarantor assigned by Standard & Poor's (regardless of whether there is a published rating by Standard & Poor's on the Mortgage Finance Company Security held by the Issuer) (*provided* that with respect to a private or confidential rating, consent of the party that obtained such rating shall be provided to Standard & Poor's);

(ii) if the criteria set forth in clause (i) above does not apply, then the Issuer or the Collateral Manager on behalf of the Issuer, may apply to Standard & Poor's for a corporate credit estimate of the issuer, which shall be the Standard & Poor's Rating of such Mortgage Finance Company Security; *provided* that pending receipt from Standard & Poor's of such estimate, such Collateral Debt Security shall have a Standard & Poor's Rating of "CCC-" if the Collateral Manager believes that such estimate will be at least "CCC-" and the Aggregate Principal Balance of all Collateral Debt Securities having a Standard & Poor's Rating by reason of this proviso does not exceed 5% of the Aggregate Principal Balance of all Collateral Debt Securities; *provided, further*, that such credit estimate will expire after one year at which time the Collateral Manager may reapply for a new credit estimate,

(iii) with respect to any Synthetic Security the Reference Obligation of which is a Mortgage Finance Company Security, the Standard & Poor's Rating of such Synthetic Security shall be the rating assigned thereto by Standard & Poor's in connection with the acquisition thereof by the Issuer upon request of the Issuer or the Collateral Manager;

(iv) if such Mortgage Finance Company Security is not rated by Standard & Poor's, but another security or obligation of the issuer is rated by Standard & Poor's and neither the Issuer nor the Collateral

Manager obtains a Standard & Poor's Rating for such Mortgage Finance Company Security pursuant to clause (ii) above, then the Standard & Poor's Rating of such Mortgage Finance Company Security shall be determined as follows: (A) if there is a rating by Standard & Poor's on a senior secured obligation of the issuer, then the Standard & Poor's Rating of such Mortgage Finance Company Security shall be one subcategory below such rating; (B) if there is a rating on a senior unsecured obligation of the issuer by Standard & Poor's, then the Standard & Poor's Rating of such Mortgage Finance Company Security shall equal such rating; and (C) if there is a rating on a subordinated obligation of the issuer by Standard & Poor's, then the Standard & Poor's Rating of such Mortgage Finance Company Security shall be one subcategory above such rating if such rating is higher than "BB+", and shall be two subcategories above such rating if such rating is "BB+" or lower;

(v) if a debt security or obligation of the issuer of such Mortgage Finance Company Security has been in default during the past two years, the Standard & Poor's Rating of such Mortgage Finance Company Security will be "D"; or

(vi) if there is no issuer credit rating published by Standard & Poor's and such Mortgage Finance Company Security is not rated by Standard & Poor's, and no other security or obligation of the issuer is rated by Standard & Poor's and neither the Issuer nor the Collateral Manager obtains an Standard & Poor's Rating for such Mortgage Finance Company Security pursuant to subclause (ii) above, then the Standard & Poor's Rating of such Mortgage Finance Company Security may be determined using any one of the methods provided below:

(A) if such Mortgage Finance Company Security is publicly rated by Moody's, then the Standard & Poor's Rating of such Mortgage Finance Company Security will be (1) one subcategory below the Standard & Poor's equivalent of the public rating assigned by Moody's if such Mortgage Finance Company Security is rated "Baa3" or higher by Moody's and (2) two subcategories below the Standard & Poor's equivalent of the public rating assigned by Moody's if such Mortgage Finance Company Security is rated "Ba1" or lower by Moody's;

(B) if such Mortgage Finance Company Security is not publicly rated by Moody's but a security with the same ranking is publicly rated by Moody's then the Standard & Poor's Rating of such parallel security will be determined in accordance with the methodology set forth in subclause (A) above, and the Standard & Poor's Rating of such Mortgage Finance Company Security will be determined in accordance with the methodology set forth in clause (iv) above (for such purposes treating the parallel security as if it were rated by Standard & Poor's at the rating determined pursuant to this subclause (B)); or

(c) any Form-Approved Synthetic Security will be determined based upon the Standard & Poor's Rating of the related Reference Obligation as determined in accordance with subclauses (b)(i) and (b)(ii) above;

provided that, in regard to subclauses clauses (i) and (ii) of Section (a) above and clauses (i) through (vi) of Section (b) above and, to the extent any of the such clauses apply to the Reference Obligation of a Form-Approved Synthetic Security, subclause (c) above, (1) if a Collateral Debt Security (or, in the case of a Form-Approved Synthetic Security, the related Reference Obligation) (x) is placed on a watch list for possible upgrade by Standard & Poor's, the Standard & Poor's Rating applicable to such Collateral Debt Security shall be one rating subcategory above the Standard & Poor's Rating applicable to such Collateral Debt Security (or, in the case of a Form-Approved Synthetic Security, the related Reference Obligation) immediately prior to such Collateral Debt Security (or, in the case of a Form-Approved Synthetic Security, the related Reference Obligation) being placed on such watch list or (y) is placed on a watch list for possible downgrade by Standard & Poor's, the Standard & Poor's Rating applicable to such Collateral Debt Security shall be one rating subcategory below the Standard & Poor's Rating applicable to such Collateral Debt Security (or, in the case of a Form-Approved Synthetic Security, the related Reference Obligation) immediately prior to such Collateral Debt Security or Reference Obligation (as applicable) being placed on such watch list, (2) the Rating of not more than 20% of the Aggregate Principal Balance of all Collateral Debt Securities may be determined pursuant to clause (iv) of Section (a), clause (vi) of Section (b) above or (to the extent clauses (iv) of Section (a) and (vi) of Section (b) above are applicable thereto) clause (c) and *provided further* that, in respect of any U.S. Agency Guaranteed Security or FHLMC/FNMA Guaranteed Security, the Standard & Poor's

Rating will be the rating assigned to the relevant guarantor of such Collateral Debt Security by Standard & Poor's if such U.S. Agency Guaranteed Security or FHLMC/FNMA Guaranteed Security is not assigned a Standard & Poor's Rating pursuant to clause (i) of Section (a) above and such security is not rated by either Moody's or Fitch.

With respect to any assigned rating referenced in clause (a)(ii) above, for so long as any of the Notes remain Outstanding, prior to or immediately following the acquisition of any Collateral Debt Security not publicly rated by Standard & Poor's and on or prior to each one-year anniversary of the acquisition of such Collateral Debt Security, the Issuer shall submit to Standard & Poor's a request to perform a credit estimate on such Collateral Debt Security, together with all information reasonably required by Standard & Poor's to perform such estimate.

The "Fitch Rating" of any Collateral Debt Security as of any date of determination will be determined as follows:

(i) if such Collateral Debt Security (or, in the case of a Form-Approved Synthetic Security, the related Reference Obligation) is rated by Fitch, the Fitch Rating thereof (or of the related Synthetic Security, as applicable) shall be such rating;

(ii) if such Collateral Debt Security (or, in the case of a Form-Approved Synthetic Security, the related Reference Obligation) is not rated by Fitch and a rating is published by both Standard & Poor's and Moody's, the Fitch Rating thereof (or of the related Synthetic Security, as applicable) shall be the lower of such ratings; and if a rating is published by only one of Standard & Poor's and Moody's, the Fitch Rating thereof (or of the related Synthetic Security, as applicable) shall be that published rating by Standard & Poor's or Moody's, as the case may be;

(iii) if such Collateral Debt Security is a Form-Approved Synthetic Security, the Fitch Rating of such Synthetic Security shall be (a) if such Synthetic Security is rated by Fitch, the rating assigned thereto by Fitch in connection with the acquisition thereof by the Issuer upon request of the Issuer or the Collateral Manager, (b) if such Synthetic Security is not rated by Fitch and a rating is published by both Standard & Poor's and Moody's, the Fitch Rating shall be the lower of such ratings; and (c) if such Synthetic Security is not rated by Fitch and a rating is published by only one of Standard & Poor's and Moody's, the Fitch Rating shall be that published rating by Standard & Poor's or Moody's, as the case may be; and

(iv) in all other circumstances, the Fitch Rating shall be the private rating assigned by Fitch upon request of the Collateral Manager.

provided, that (x) if such Collateral Debt Security has been put on rating watch negative for possible downgrade by any Rating Agency, then the rating used to determine the Fitch Rating under either of clauses (i) or (ii) above shall be one rating subcategory below such rating by that Rating Agency, and (y) if such Collateral Debt Security has been put on rating watch positive for possible upgrade by any Rating Agency, then the rating used to determine the Fitch Rating under either of clauses (i) or (ii) above shall be one rating subcategory above such rating by that Rating Agency, and (z) notwithstanding the rating definition described above, Fitch reserves the right to issue a rating estimate for any Collateral Debt Security at any time.

SCHEDULE F

MOODY'S REPO ADVANCE RATES

Asset Type	Coupon Type	Asset Rating	Asset Mat	Ctpy Rating					
				Aaa	Aa1	Aa2	Aa3	A1	Below A3
CDO (HYB,SF)	Floating	Aaa	< 1Y	100.00%	97.06%	97.01%	96.92%	96.81%	95.73%
CDO (HYB,SF)	Floating	Aaa	< 2Y	100.00%	97.06%	97.01%	96.75%	96.55%	94.61%
CDO (HYB,SF)	Floating	Aaa	< 5Y	100.00%	97.06%	96.93%	96.27%	95.80%	91.47%
CDO (HYB,SF)	Floating	Aaa	< 10Y	100.00%	97.04%	96.72%	95.38%	94.55%	87.24%
CDO (HYB,SF)	Floating	Aaa	< 30Y	100.00%	94.02%	93.35%	90.76%	89.20%	75.93%
CDO (HYB,SF)	Floating	Aa	< 1Y	100.00%	94.06%	94.01%	93.86%	93.72%	92.31%
CDO (HYB,SF)	Floating	Aa	< 2Y	100.00%	94.06%	93.99%	93.64%	93.38%	90.82%
CDO (HYB,SF)	Floating	Aa	< 5Y	100.00%	94.04%	93.86%	93.04%	92.44%	86.97%
CDO (HYB,SF)	Floating	Aa	< 10Y	100.00%	94.00%	93.60%	91.96%	90.94%	82.00%
CDO (HYB,SF)	Floating	Aa	< 30Y	100.00%	87.96%	87.18%	84.09%	82.24%	66.87%
CDO (HYB,SF)	Floating	A	< 1Y	100.00%	92.06%	92.01%	91.79%	91.60%	89.64%
CDO (HYB,SF)	Floating	A	< 2Y	100.00%	92.05%	91.93%	91.49%	91.13%	87.60%
CDO (HYB,SF)	Floating	A	< 5Y	100.00%	92.02%	91.79%	90.73%	89.94%	82.69%
CDO (HYB,SF)	Floating	A	< 10Y	100.00%	91.97%	91.50%	89.44%	88.12%	76.73%
CDO (HYB,SF)	Floating	A	< 30Y	100.00%	83.92%	83.11%	79.23%	76.90%	58.31%
CDO (HYB,SF)	Floating	Baa	< 1Y	100.00%	90.06%	90.00%	89.67%	89.41%	86.69%
CDO (HYB,SF)	Floating	Baa	< 2Y	100.00%	90.05%	89.91%	89.26%	88.76%	83.86%
CDO (HYB,SF)	Floating	Baa	< 5Y	100.00%	90.01%	89.71%	88.28%	87.23%	77.68%
CDO (HYB,SF)	Floating	Baa	< 10Y	100.00%	89.94%	89.36%	86.69%	84.98%	70.64%
CDO (HYB,SF)	Floating	Baa	< 30Y	100.00%	79.89%	78.91%	74.02%	71.12%	49.14%
CDO (HYL,IG)	Floating	Aaa	< 1Y	100.00%	98.06%	98.01%	97.94%	97.85%	96.93%
CDO (HYL,IG)	Floating	Aaa	< 2Y	100.00%	98.06%	98.01%	97.80%	97.63%	95.97%
CDO (HYL,IG)	Floating	Aaa	< 5Y	100.00%	98.06%	97.94%	97.39%	96.99%	93.29%
CDO (HYL,IG)	Floating	Aaa	< 10Y	100.00%	98.04%	97.77%	96.63%	95.93%	89.64%
CDO (HYL,IG)	Floating	Aaa	< 30Y	100.00%	96.02%	95.46%	93.23%	91.88%	80.22%
CDO (HYL,IG)	Floating	Aa	< 1Y	100.00%	95.06%	95.01%	94.91%	94.81%	93.71%
CDO (HYL,IG)	Floating	Aa	< 2Y	100.00%	95.06%	95.00%	94.74%	94.53%	92.53%
CDO (HYL,IG)	Floating	Aa	< 5Y	100.00%	95.04%	94.88%	94.27%	93.81%	89.51%
CDO (HYL,IG)	Floating	Aa	< 10Y	100.00%	95.00%	94.65%	93.44%	92.64%	85.55%
CDO (HYL,IG)	Floating	Aa	< 30Y	100.00%	89.96%	89.35%	86.95%	85.47%	72.89%
CDO (HYL,IG)	Floating	A	< 1Y	100.00%	93.06%	93.01%	92.88%	92.75%	91.41%
CDO (HYL,IG)	Floating	A	< 2Y	100.00%	93.06%	92.95%	92.68%	92.43%	90.00%
CDO (HYL,IG)	Floating	A	< 5Y	100.00%	93.02%	92.81%	92.16%	91.62%	86.56%
CDO (HYL,IG)	Floating	A	< 10Y	100.00%	92.97%	92.57%	91.28%	90.37%	82.30%
CDO (HYL,IG)	Floating	A	< 30Y	100.00%	85.92%	85.29%	82.74%	81.08%	67.25%
CDO (HYL,IG)	Floating	Baa	< 1Y	100.00%	91.06%	91.00%	90.79%	90.60%	88.61%
CDO (HYL,IG)	Floating	Baa	< 2Y	100.00%	91.05%	90.91%	90.49%	90.13%	86.53%
CDO (HYL,IG)	Floating	Baa	< 5Y	100.00%	91.01%	90.73%	89.78%	89.01%	81.91%
CDO (HYL,IG)	Floating	Baa	< 10Y	100.00%	90.95%	90.44%	88.63%	87.37%	76.53%
CDO (HYL,IG)	Floating	Baa	< 30Y	100.00%	81.89%	81.10%	77.63%	75.45%	57.89%
CMBS	Fixed	Aaa	< 1Y	100.00%	99.66%	99.55%	99.28%	99.02%	96.48%
CMBS	Fixed	Aaa	< 2Y	100.00%	99.62%	99.40%	98.83%	98.33%	93.56%
CMBS	Fixed	Aaa	< 5Y	100.00%	99.32%	98.82%	97.56%	96.49%	86.89%
CMBS	Fixed	Aaa	< 10Y	100.00%	98.83%	98.04%	96.23%	94.88%	83.22%
CMBS	Fixed	Aaa	< 30Y	100.00%	97.69%	96.32%	92.42%	89.85%	69.12%
CMBS	Fixed	Aa	< 1Y	100.00%	99.36%	99.24%	98.92%	98.63%	95.78%
CMBS	Fixed	Aa	< 2Y	100.00%	99.32%	99.08%	98.43%	97.87%	92.57%
CMBS	Fixed	Aa	< 5Y	100.00%	98.91%	98.37%	96.94%	95.75%	85.15%
CMBS	Fixed	Aa	< 10Y	100.00%	98.22%	97.36%	95.30%	93.81%	80.95%
CMBS	Fixed	Aa	< 30Y	100.00%	96.47%	94.99%	90.61%	87.78%	65.36%
CMBS	Fixed	A	< 1Y	100.00%	99.05%	98.94%	98.63%	98.34%	95.40%
CMBS	Fixed	A	< 2Y	100.00%	99.02%	98.78%	98.15%	97.59%	92.15%

Asset Type	Coupon Type	Asset Rating	Asset Mat	Ctpy Rating					
				Aaa	Aa1	Aa2	Aa3	A1	Below A3
CMBS	Fixed	A	< 5Y	100.00%	98.41%	97.87%	96.47%	95.26%	84.38%
CMBS	Fixed	A	< 10Y	100.00%	97.52%	96.69%	94.68%	93.14%	79.98%
CMBS	Fixed	A	< 30Y	100.00%	95.07%	93.69%	89.41%	86.51%	63.79%
CMBS	Fixed	Baa	< 1Y	100.00%	98.75%	98.64%	98.32%	98.02%	94.95%
CMBS	Fixed	Baa	< 2Y	100.00%	98.71%	98.47%	97.83%	97.27%	91.67%
CMBS	Fixed	Baa	< 5Y	100.00%	97.91%	97.37%	95.95%	94.72%	83.58%
CMBS	Fixed	Baa	< 10Y	100.00%	96.62%	95.81%	93.80%	92.25%	78.96%
CMBS	Fixed	Baa	< 30Y	100.00%	93.28%	91.95%	87.71%	84.81%	62.13%
CMBS	Fixed	Ba	< 1Y	100.00%	92.56%	92.44%	92.04%	91.69%	88.13%
CMBS	Fixed	Ba	< 2Y	100.00%	92.52%	92.28%	91.49%	90.83%	84.41%
CMBS	Fixed	Ba	< 5Y	100.00%	92.42%	91.89%	90.17%	88.79%	76.37%
CMBS	Fixed	Ba	< 10Y	100.00%	92.34%	91.55%	89.13%	87.39%	72.79%
CMBS	Fixed	Ba	< 30Y	100.00%	84.73%	83.46%	78.71%	75.67%	52.48%
CMBS	Fixed	B	< 1Y	100.00%	87.56%	87.43%	86.86%	86.41%	81.75%
CMBS	Fixed	B	< 2Y	100.00%	87.52%	87.26%	86.15%	85.30%	77.05%
CMBS	Fixed	B	< 5Y	100.00%	87.43%	86.88%	84.51%	82.77%	67.56%
CMBS	Fixed	B	< 10Y	100.00%	87.36%	86.53%	83.30%	81.17%	63.83%
CMBS	Fixed	B	< 30Y	100.00%	74.78%	73.46%	67.70%	64.28%	39.74%
CMBS	Fixed	Caa / NR	< 1Y	100.00%	75.06%	74.93%	73.98%	73.30%	66.42%
CMBS	Fixed	Caa / NR	< 2Y	100.00%	75.03%	74.75%	72.91%	71.66%	59.89%
CMBS	Fixed	Caa / NR	< 5Y	100.00%	74.97%	74.44%	70.98%	68.73%	50.10%
CMBS	Fixed	Caa / NR	< 10Y	100.00%	74.93%	74.11%	69.99%	67.52%	48.38%
CMBS	Fixed	Caa / NR	< 30Y	100.00%	49.93%	48.56%	43.25%	40.25%	20.65%
CMBS	Floating	Aaa	< 1Y	100.00%	99.66%	99.62%	99.60%	99.59%	99.20%
CMBS	Floating	Aaa	< 2Y	100.00%	99.66%	99.61%	99.54%	99.48%	98.72%
CMBS	Floating	Aaa	< 5Y	100.00%	99.43%	99.27%	99.01%	98.74%	96.19%
CMBS	Floating	Aaa	< 10Y	100.00%	98.99%	98.68%	98.09%	97.61%	93.23%
CMBS	Floating	Aaa	< 30Y	100.00%	97.91%	97.28%	95.55%	94.34%	83.84%
CMBS	Floating	Aa	< 1Y	100.00%	99.36%	99.32%	99.30%	99.23%	98.62%
CMBS	Floating	Aa	< 2Y	100.00%	99.36%	99.30%	99.20%	99.09%	97.98%
CMBS	Floating	Aa	< 5Y	100.00%	99.02%	98.82%	98.45%	98.09%	94.70%
CMBS	Floating	Aa	< 10Y	100.00%	98.37%	98.00%	97.22%	96.61%	91.07%
CMBS	Floating	Aa	< 30Y	100.00%	96.67%	95.93%	93.76%	92.28%	79.63%
CMBS	Floating	A	< 1Y	100.00%	99.06%	99.02%	98.97%	98.90%	98.13%
CMBS	Floating	A	< 2Y	100.00%	99.06%	98.97%	98.85%	98.71%	97.31%
CMBS	Floating	A	< 5Y	100.00%	98.51%	98.28%	97.85%	97.42%	93.37%
CMBS	Floating	A	< 10Y	100.00%	97.65%	97.25%	96.40%	95.69%	89.35%
CMBS	Floating	A	< 30Y	100.00%	95.25%	94.48%	92.15%	90.51%	76.54%
CMBS	Floating	Baa	< 1Y	100.00%	98.76%	98.71%	98.64%	98.55%	97.61%
CMBS	Floating	Baa	< 2Y	100.00%	98.75%	98.65%	98.50%	98.33%	96.60%
CMBS	Floating	Baa	< 5Y	100.00%	98.00%	97.74%	97.24%	96.74%	92.02%
CMBS	Floating	Baa	< 10Y	100.00%	96.74%	96.30%	95.35%	94.56%	87.49%
CMBS	Floating	Baa	< 30Y	100.00%	93.44%	92.63%	90.11%	88.32%	73.28%
CMBS	Floating	Ba	< 1Y	100.00%	92.56%	92.51%	92.26%	92.05%	89.89%
CMBS	Floating	Ba	< 2Y	100.00%	92.55%	92.42%	91.93%	91.54%	87.60%
CMBS	Floating	Ba	< 5Y	100.00%	92.50%	92.18%	90.90%	89.93%	80.93%
CMBS	Floating	Ba	< 10Y	100.00%	92.44%	91.89%	89.83%	88.43%	76.39%
CMBS	Floating	Ba	< 30Y	100.00%	84.85%	83.85%	79.35%	76.59%	55.10%
CMBS	Floating	B	< 1Y	100.00%	87.56%	87.50%	87.08%	86.76%	83.46%
CMBS	Floating	B	< 2Y	100.00%	87.55%	87.39%	86.58%	85.99%	80.08%
CMBS	Floating	B	< 5Y	100.00%	87.49%	87.10%	85.13%	83.73%	71.18%
CMBS	Floating	B	< 10Y	100.00%	87.43%	86.76%	83.73%	81.81%	65.89%
CMBS	Floating	B	< 30Y	100.00%	74.85%	73.58%	67.70%	64.28%	39.74%
CMBS	Floating	Caa / NR	< 1Y	100.00%	75.06%	75.00%	74.21%	73.66%	68.07%
CMBS	Floating	Caa / NR	< 2Y	100.00%	75.04%	74.83%	73.35%	72.34%	62.67%
CMBS	Floating	Caa / NR	< 5Y	100.00%	75.00%	74.56%	71.39%	69.35%	52.18%
CMBS	Floating	Caa / NR	< 10Y	100.00%	74.96%	74.13%	69.99%	67.52%	48.38%
CMBS	Floating	Caa / NR	< 30Y	100.00%	49.95%	48.56%	43.25%	40.25%	20.65%

Asset Type	Coupon Type	Asset Rating	Asset Mat	Ctpy Rating					
				Aaa	Aa1	Aa2	Aa3	A1	Below A3
RMBS	Fixed	Aaa	< 1Y	100.00%	99.95%	99.83%	99.52%	99.26%	96.88%
RMBS	Fixed	Aaa	< 2Y	100.00%	99.91%	99.66%	99.08%	98.59%	94.07%
RMBS	Fixed	Aaa	< 5Y	100.00%	99.74%	99.16%	97.95%	96.89%	87.47%
RMBS	Fixed	Aaa	< 10Y	100.00%	99.53%	98.69%	97.16%	95.75%	83.48%
RMBS	Fixed	Aaa	< 30Y	100.00%	99.11%	97.71%	94.24%	91.51%	69.54%
RMBS	Fixed	Aa	< 1Y	100.00%	99.83%	99.71%	99.35%	99.07%	96.43%
RMBS	Fixed	Aa	< 2Y	100.00%	99.78%	99.51%	98.87%	98.32%	93.33%
RMBS	Fixed	Aa	< 5Y	100.00%	99.57%	98.97%	97.66%	96.52%	86.50%
RMBS	Fixed	Aa	< 10Y	100.00%	99.28%	98.43%	96.81%	95.35%	82.64%
RMBS	Fixed	Aa	< 30Y	100.00%	98.61%	97.20%	93.56%	90.74%	68.15%
RMBS	Fixed	A	< 1Y	100.00%	99.75%	99.62%	99.23%	98.90%	95.90%
RMBS	Fixed	A	< 2Y	100.00%	99.70%	99.42%	98.69%	98.07%	92.39%
RMBS	Fixed	A	< 5Y	100.00%	99.43%	98.82%	97.39%	96.15%	85.20%
RMBS	Fixed	A	< 10Y	100.00%	99.09%	98.27%	96.56%	95.01%	81.52%
RMBS	Fixed	A	< 30Y	100.00%	98.23%	96.86%	93.05%	90.07%	66.30%
RMBS	Fixed	Baa	< 1Y	100.00%	99.64%	99.51%	99.08%	98.72%	95.45%
RMBS	Fixed	Baa	< 2Y	100.00%	99.59%	99.30%	98.50%	97.83%	91.67%
RMBS	Fixed	Baa	< 5Y	100.00%	99.26%	98.66%	97.16%	95.87%	84.44%
RMBS	Fixed	Baa	< 10Y	100.00%	98.81%	98.01%	96.28%	94.71%	81.10%
RMBS	Fixed	Baa	< 30Y	100.00%	97.65%	96.35%	92.50%	89.51%	65.61%
RMBS	Fixed	Ba	< 1Y	100.00%	97.05%	96.92%	96.48%	96.12%	92.80%
RMBS	Fixed	Ba	< 2Y	100.00%	97.00%	96.72%	95.90%	95.21%	88.96%
RMBS	Fixed	Ba	< 5Y	100.00%	96.90%	96.33%	94.84%	93.58%	82.38%
RMBS	Fixed	Ba	< 10Y	100.00%	96.83%	96.10%	94.43%	92.96%	80.01%
RMBS	Fixed	Ba	< 30Y	100.00%	93.70%	92.52%	88.92%	86.15%	63.81%
RMBS	Fixed	B	< 1Y	100.00%	95.05%	94.91%	94.27%	93.81%	89.43%
RMBS	Fixed	B	< 2Y	100.00%	95.00%	94.69%	93.51%	92.61%	84.46%
RMBS	Fixed	B	< 5Y	100.00%	94.91%	94.31%	92.23%	90.64%	76.79%
RMBS	Fixed	B	< 10Y	100.00%	94.85%	94.12%	91.85%	90.08%	74.72%
RMBS	Fixed	B	< 30Y	100.00%	89.74%	88.56%	83.93%	80.70%	55.51%
RMBS	Fixed	Caa / NR	< 1Y	100.00%	90.05%	89.90%	88.76%	88.01%	81.10%
RMBS	Fixed	Caa / NR	< 2Y	100.00%	90.00%	89.64%	87.51%	86.08%	73.49%
RMBS	Fixed	Caa / NR	< 5Y	100.00%	89.92%	89.24%	85.63%	83.23%	63.37%
RMBS	Fixed	Caa / NR	< 10Y	100.00%	89.88%	89.10%	85.30%	82.73%	61.75%
RMBS	Fixed	Caa / NR	< 30Y	100.00%	79.79%	78.52%	71.51%	67.24%	37.44%
RMBS	Floating	Aaa	< 1Y	100.00%	99.96%	99.92%	99.90%	99.87%	99.50%
RMBS	Floating	Aaa	< 2Y	100.00%	99.96%	99.91%	99.83%	99.78%	99.06%
RMBS	Floating	Aaa	< 5Y	100.00%	99.87%	99.69%	99.44%	99.17%	96.67%
RMBS	Floating	Aaa	< 10Y	100.00%	99.72%	99.38%	98.90%	98.40%	93.79%
RMBS	Floating	Aaa	< 30Y	100.00%	99.37%	98.71%	97.20%	95.92%	84.78%
RMBS	Floating	Aa	< 1Y	100.00%	99.84%	99.81%	99.76%	99.71%	99.14%
RMBS	Floating	Aa	< 2Y	100.00%	99.84%	99.75%	99.66%	99.56%	98.51%
RMBS	Floating	Aa	< 5Y	100.00%	99.70%	99.48%	99.14%	98.80%	95.61%
RMBS	Floating	Aa	< 10Y	100.00%	99.45%	99.07%	98.48%	97.89%	92.44%
RMBS	Floating	Aa	< 30Y	100.00%	98.84%	98.11%	96.34%	94.88%	82.23%
RMBS	Floating	A	< 1Y	100.00%	99.76%	99.71%	99.64%	99.56%	98.80%
RMBS	Floating	A	< 2Y	100.00%	99.75%	99.65%	99.51%	99.36%	97.89%
RMBS	Floating	A	< 5Y	100.00%	99.54%	99.29%	98.85%	98.41%	94.33%
RMBS	Floating	A	< 10Y	100.00%	99.24%	98.83%	98.12%	97.41%	90.93%
RMBS	Floating	A	< 30Y	100.00%	98.43%	97.66%	95.60%	93.91%	79.35%
RMBS	Floating	Baa	< 1Y	100.00%	99.65%	99.61%	99.50%	99.40%	98.40%
RMBS	Floating	Baa	< 2Y	100.00%	99.64%	99.52%	99.33%	99.12%	97.21%
RMBS	Floating	Baa	< 5Y	100.00%	99.36%	99.08%	98.54%	98.02%	93.17%
RMBS	Floating	Baa	< 10Y	100.00%	98.94%	98.50%	97.69%	96.89%	89.66%
RMBS	Floating	Baa	< 30Y	100.00%	97.82%	97.02%	94.75%	92.91%	77.12%
RMBS	Floating	Ba	< 1Y	100.00%	97.06%	97.00%	96.72%	96.51%	94.49%
RMBS	Floating	Ba	< 2Y	100.00%	97.04%	96.90%	96.38%	95.96%	92.13%
RMBS	Floating	Ba	< 5Y	100.00%	96.98%	96.64%	95.52%	94.63%	86.55%

Asset Type	Coupon Type	Asset Rating	Asset Mat	Ctpy Rating					
				Aaa	Aa1	Aa2	Aa3	A1	Below A3
RMBS	Floating	Ba	< 10Y	100.00%	96.93%	96.44%	94.97%	93.78%	83.17%
RMBS	Floating	Ba	< 30Y	100.00%	93.82%	92.94%	89.45%	86.94%	66.35%
RMBS	Floating	B	< 1Y	100.00%	95.06%	94.97%	94.52%	94.19%	91.10%
RMBS	Floating	B	< 2Y	100.00%	95.04%	94.83%	93.98%	93.35%	87.52%
RMBS	Floating	B	< 5Y	100.00%	94.97%	94.55%	92.80%	91.53%	80.15%
RMBS	Floating	B	< 10Y	100.00%	94.92%	94.35%	92.19%	90.58%	76.55%
RMBS	Floating	B	< 30Y	100.00%	89.81%	88.81%	83.93%	80.70%	55.51%
RMBS	Floating	Caa / NR	< 1Y	100.00%	90.06%	89.92%	89.03%	88.43%	82.82%
RMBS	Floating	Caa / NR	< 2Y	100.00%	90.03%	89.76%	88.03%	86.88%	76.56%
RMBS	Floating	Caa / NR	< 5Y	100.00%	89.96%	89.41%	86.08%	83.90%	65.65%
RMBS	Floating	Caa / NR	< 10Y	100.00%	89.91%	89.22%	85.30%	82.73%	61.75%
RMBS	Floating	Caa / NR	< 30Y	100.00%	79.83%	78.62%	71.51%	67.24%	37.44%
UST	Fixed	Aaa	< 1Y	100.00%	100.00%	99.90%	99.67%	99.44%	97.30%
UST	Fixed	Aaa	< 2Y	100.00%	99.94%	99.68%	99.28%	98.85%	94.89%
UST	Fixed	Aaa	< 5Y	100.00%	99.77%	99.17%	98.37%	97.54%	89.88%
UST	Fixed	Aaa	< 10Y	100.00%	99.59%	98.67%	97.62%	96.63%	87.62%
UST	Fixed	Aaa	< 30Y	100.00%	99.22%	97.67%	95.22%	93.25%	76.66%

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