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WALL STREET AND THE FINANCIAL CRISIS: ANATOMY OF A FINANCIAL COLLAPSE

REPORT AND APPENDIX

BEFORE THE

PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

OF THE

COMMITTEE ON
HOMELAND SECURITY AND
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

ONE HUNDRED TWELFTH CONGRESS

FIRST SESSION

VOLUME 5 OF 5—PART II

APRIL 13, 2011

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WALL STREET AND THE FINANCIAL CRISIS: ANATOMY OF A FINANCIAL COLLAPSE REPORT AND APPENDIX VOLUME 5 OF 5—PART II

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FOOTNOTE LOCATOR LIST and BATES LOCATOR LIST

The following two lists, *Footnote Locator List* starting below, and the following *Bates Locator List*, reference documents referred to in the Report's footnotes. Footnotes which are not contained in either list are explanative, reference Subcommittee interviews for which records are not available to the public, or reference a widely available public document.

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Goldman Sachs counsel email to the Subcommittee regarding supplemental response to questions for the record (4/7/2011)		5881
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GS MBS-E-012523933	1699	3570
GS MBS-E-012551460	1760	3644
GS MBS-E-012551726	1759	3643
GS MBS-E-012553986	1597	3216
GS MBS-E-012561798	1743	3619
GS MBS-E-012568089	2812	5835
GS MBS-E-012570169	1748	3622
GS MBS-E-012606879	1818	3720
GS MBS-E-012681410	2221	4169
GS MBS-E-012683946	1609	3361
GS MBS-E-012684557	2243	4184
GS MBS-E-012685289	2217	4160
GS MBS-E-012685645	2241	4182
GS MBS-E-012689798	2266	4233
GS MBS-E-012695030	2271	4326
GS MBS-E-012744553	1650	3496
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GS MBS-E-012891722	1750	3624
GS MBS-E-012900708	1773	3667
GS MBS-E-012927140	1824	3725
GS MBS-E-012927198	1916	3825
GS MBS-E-012927200	1827	3729
GS MBS-E-012927202	1891	3814
GS MBS-E-012929469	1864	3788
GS MBS-E-012962076	1995	3885
GS MBS-E-013349723	2136	4096
GS MBS-E-013411815	2031	3916
GS MBS-E-013427046	2472	4609
GS MBS-E-013449641	2438	4578
GS MBS-E-013458155	2566	5244
GS MBS-E-013475756	2295	4338
GS MBS-E-013492538	1622	3419
GS MBS-E-013648130	2207	4146
GS MBS-E-013668603	1967	3868
GS MBS-E-013693128	1861	3759
GS MBS-E-013746511	1998	3892
GS MBS-E-013746516	2664	5426
GS MBS-E-013782989	2169	4126
GS MBS-E-013797964	2802	5833

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GS MBS-E-013821884	2793	5830
GS MBS-E-013870906	2298	4345
GS MBS-E-014038810	1615	3363
GS MBS-E-014042217	2252	4191
GS MBS-E-014042218	2252	4192
GS MBS-E-014042220	2252	4194
GS MBS-E-014055117	2562	5242
GS MBS-E-014335388	2302	4349
GS MBS-E-014338525	2578	5259
GS MBS-E-014367160	2253	4195
GS MBS-E-014367161	2253	4196
GS MBS-E-014419176	2344	4444
GS MBS-E-014597705	2305	4352
GS MBS-E-014605918	2304	4351
GS MBS-E-015192547	2628	5319
GS MBS-E-015232129	2639	5327
GS MBS-E-015240358	2571	5253
GS MBS-E-015550857	2331	4363
GS MBS-E-015646485	1515	2782
GS MBS-E-015653681	1781	3690
GS MBS-E-015654036	1781	3675
GS MBS-E-015712249	1781	3691
GS MBS-E-015732147	2666	5430
GS MBS-E-015738973	2583	5262
GS MBS-E-015863620	1853	3748
GS MBS-E-016034495	2188	4132
GS MBS-E-016067482	1601	3269
GS MBS-E-016087363	1622	3447
GS MBS-E-016165580	1683	3551
GS MBS-E-016165784	1553	2902
GS MBS-E-016187625	2800	5831
GS MBS-E-016209254	1608	3360
GS MBS-E-016344758	1892	3816
GS MBS-E-016445770	1629	3478
GS MBS-E-016473768	2306	4355
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GS MBS-E-017250218	1697	3561
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GS MBS-E-017504075	2253	4232
GS MBS-E-018209595	2231	4176
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GS MBS-E-018936137	2320	4359
GS MBS-E-018938493	1699	3562
GS MBS-E-018940734	1699	3564
GS MBS-E-018947548	1763	3647
GS MBS-E-019164799	2015	3899
GS MBS-E-019164806	1593	3211
GS MBS-E-019460848	1699	3567
GS MBS-E-019642797	1574	2959

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GS MBS-E-019645932	2053	3934
GS MBS-E-019648100	2085	3958
GS MBS-E-019654926	2099	4044
GS MBS-E-019659221	1571	2950
GS MBS-E-019794071	1661	3540
GS MBS-E-021821196	1584	3004
GS MBS-E-021822056	2267	4234
GS MBS-E-021825371	2724	5460
GS MBS-E-021825583	2622	5306
GS MBS-E-021876172	2598	5275
GS MBS-E-021876334	2590	5267
GS MBS-E-021876502	2594	5273
GS MBS-E-021878556	2596	5274
GS MBS-E-021880171	2353	4445
GS MBS-E-021880596	2617	5302
GS MBS-E-021881029	2609	5296
GS MBS-E-021881077	2654	5390
GS MBS-E-021881084	2656	5397
GS MBS-E-021887795	1746	3621
GS MBS-E-021890868	1779	3673
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GS MBS-E-022012805	2616	5301
GS MBS-E-022023387	2406	4472
GS MBS-E-022138816	2644	5375
GS MBS-E-022141026	2665	5428
GS MBS-E-022164848	2603	5276
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GS MBS-E-023604914		5898
GS MBS-E-023604917		5899
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GS MBS-E-023605102		5890
GS MBS-E-023605104		5891
GS MBS-E-023605107		5892
GS MBS-E-023605108		5893
GS MBS-E-023605114		5894
GS MBS-E-023605301		5901
GS MBS-E-023605304		5902
GS MBS-E-023605308		5903
GS MBS-E-099775568	1833	3740
GSC-CDO-FCIC-0029698	2307	4356
GS-PSI-00172	1541	2796
GS-PSI-01310	2130	4081
GS-PSI-03157	1561	2930
GS-PSI-04064	1619	3374
GS-PSI-04100	1619	3394
GW 107909	2646	5382

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GW 108645	2667	5431
HBK's counsel letter to PSI (10/12/2010)	1383	1688
HBK's counsel letter to PSI (8/20/2010)	1352	1555
HUD-CDO-00003155	2618	5303
HUD-CDO-00004378	2616	5300
HUD-CDO-00004851	2605	5278
HUD-CDO-00004852	2606	5279
HUD-CDO-00004882	2612	5297
HUD-CDO-00005125	2291	4337
HUD-CDO-00005146	1585	3191
HUD-CDO-00005147	1586	3192
HUD-CDO-00006877	2591	5269
HUD-CDO-00006881	2615	5298
HUD-CDO-00006894	2609	5280
JPM_WM00616783	301	61
JPM_WM00652762	424	190
JPM_WM00665373	197	45
JPM_WM00783315	534	202
JPM_WM01022322	686	314
JPM_WM01265462	393	89
JPM_WM01311922	303	63
JPM_WM01407692	218	52
JPM_WM02095572	217	48
JPM_WM02406624	422	188
JPM_WM02414318	474	192
JPM_WM02446549	572	211
JPM_WM02548447	625	213
JPM_WM02656967	422	92
JPM_WM03077089	378	87
JPM_WM03077747	376	84
JPM_WM03117796	477	199
JPM_WM03190673	315	71
JPM_WM03246053	372	78
JPM_WM03277758	375	83
JPM_WM03277786	374	81
JPM_WM03627448	377	85
JPM_WM03960778	307	65
JPM_WM03985880	333	74
JPM_WM04471136	373	79
JPM_WM04473292	824	402
JPM_WM04656627	226	53
JPM_WM05382127	311	69
JPM_WM05385579	148	8
JPM_WM06293964	158	40
JUL 000685	2412	4489
JUL 002027	2413	4493
JUL 003958	2439	4584
MIS-OCIE-RMBS-0035460	1151	723
MIS-OCIE-RMBS-0364942	1159	728
MIS-OCIE-RMBS-0419014	1113	642

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Moody's 2008 Global CDO Review (3/3/2008)	1264	771
Moody's Response to PSI Questions (2/17/2011)	1125	668
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MTSS000011	1266	802
MTSS000920	1435	2102
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OTSWME04-0000004883	648	302
OTSWME04-0000004889	649	308
OTSWME04-0000005357	154	25
OTSWME04-0000029592	719	390
OTSWME06-039 0000205	694	323
OTSWME06-039 0000214	691	319
OTSWME07-067 0001082	704	350
OTSWME07-075 0000780	868	412
OTSWMEF-0000032053	855	411
OTSWMEN-0000000274	703	328
OTSWMEN-0000020983	700	326
OTSWMS06-007 0001020	729	397
OTSWMS07-011 0001294	708	384
OTSWMS08-015 0001216	628	261
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PAULSON-ABACUS 0250401	2548	5225
PAULSON-ABACUS 0252736	2515	4764
PAULSON-ABACUS 0253248	2522	4810
PSI Chart: "Abacus 2007-AC1 Reference Portfolio"	2522	4788
PSI Chart: "Fact Sheet for Three Examples of Failed AAA Ratings"	1034	595
PSI Chart: "Goldman Sachs Expected Profit from RMBS Securitizations"	1238	769
PSI email exchange with Goldman counsel (1/7/2011)	2653	5388
PSI_QFR_GS0001-548 [Redacted]	1512	2291
PSI-Basis_Capital_Group-02-0001	2426	4533
PSI-Basis_Capital_Group-03-0001	2419	4515
PSI-Deutsche Bank-31-0004	1278	848
PSI-Deutsche Bank-32-0001	1278	844
PSI-Deutsche_Bank-02-0005	1267	811
PSI-DeutscheBank-17-Gemstone7-0001	1347	1489
PSI-FDIC-10-0001	776	399
PSI-FDIC-13-000001	947	477
PSI-M&T_Bank-02-0001	1393	1698
PSI-MOODYS-RFN-000001	1046	613
PSI-MOODYS-RFN-000007	1123	666
PSI-MOODYS-RFN-000009	1046	611
PSI-MOODYS-RFN-000011	1089	640
PSI-MOODYS-RFN-000013	1084	625
PSI-MOODYS-RFN-000019	1087	631
PSI-MOODYS-RFN-000022	1193	754
PSI-MOODYS-RFN-000029	1159	726
PSI-MOODYS-RFN-000031	1083	624
PSI-MOODYS-RFN-000032	1081	621

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PSI-MOODYS-RFN-000035	1212	765
PSI-MOODYS-RFN-000039	1056	615
PSI-MOODYS-RFN-000040	1175	742
PSI-MOODYS-RFN-000044	1003	582
PSI-MOODYS-RFN-000045	1003	583
PSI-Paulson&Co-02-0001	1011	588
PSI-Paulson-04 (Pellegrini Depo)-0001	2501	4739
PSI-Paulson-04 (Shu Depo)-0001	2515	4758
PSI-S&P-RFN-000001	1191	753
PSI-S&P-RFN-000002	1088	633
PSI-S&P-RFN-000003	1046	607
PSI-S&P-RFN-000006	1046	605
PSI-S&P-RFN-000008	1088	636
PSI-S&P-RFN-000012	1190	750
PSI-S&P-RFN-000015	1172	740
PSI-S&P-RFN-000017	1167	733
PSI-S&P-RFN-000021	1171	737
PSI-S&P-RFN-000024	1080	616
PSI-S&P-RFN-000029	1042	596
PSI-S&P-RFN-000032	1085	630
PSI-S&P-RFN-000034	1189	746
PSI-S&P-RFN-000038	1046	599
PSI-S&P-RFN-000044	1152	724
PSI-SEC (Moodys Exam Report)-14-0001	975	519
PSI-SEC (S&P Exam Report)-14-0001	1145	699
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Reich_John-00040045_001	710	385
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S&P SEN-PSI 0007442	1201	760
S&P-PSI 0000028	991	568
S&P-PSI 0000036	991	575
S&P-SEC 067708	1004	584
S&P-SEC 067733	1004	585
S&P-SEC 067740	1004	586
S&P-SEC 067747	1004	587
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SEC_OCIE_CRA_011214	981	544
SEC_OCIE_CRA_011217	981	545
SEC_OCIE_CRA_011218	982	546
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Statement submitted to PSI by Jordan Horvath (1/7/2011)	2657	5406
Statement submitted to PSI by Susan Helfrick (1/7/2011)	2657	5405
Statement submitted to PSI by Timothy Saunders (12/22/2010)	2657	5404
Transcript-Blankfein on CNBC Power Lunch (5/7/2010)	2706	5455
Wachovia counsel email to PSI (11/19 & 23/2010)	1488	2272

Securitization Credit Report

Reason for Presentation: New

Dr. Ackermann	Dr. Börsig	Dr. von Heydebreck	Lamberti

CDO | KWG 13: No | KWG 15: No

Borrower (full legal name incl. legal address and domicile country)	Gemstone CDO VII Ltd. ("Gemstone VII") Elizabethan Sq. George Town, Grand Cayman, Cayman Islands
Funding Beneficiary: (if other than borrower)	N/A
Asset Manager	HBK Investment LP ("HBK", "Company") 300 Crescent Ct., Suite 700, Dallas, TX
Sponsor	HBK Investment LP ("HBK", "Company") 300 Crescent Ct., Suite 700, Dallas, TX

Servicer Group:	HBK		Servicer Group ID:		
Paragon Org ID	6909412	Batch Code	67	SIC:	6733
DB Business Entity	CDO group	DB Booking Entity			DBAG NY/Cayman

Classification	Pass
Authority	SCO
LLP:	0
Date:	12/20/06
CA Review Date (new/previous)	3/07 / n/a
Rating Rev. date (new/previous)	3/07 / n/a
Asset Category	CDO: Structured Finance
Asset pool considered granular	yes
Weakest external rating of underlying assets	Ba2
Remaining average life of assets (yrs)	6.0

	LGD	DB FPD	S&P	Moody's
All Facilities	2	iBBB+		
Servicer Rating		iBBB-		
Counterparty PD rating :		iBBB+		

x Securitisation hierarchy | Other hierarchy see "ownership" for details

Borrower's majority owner / stake: N/A

Transaction Type	Holding Period	Maturity Date
Warehouse Line	Select	3/07

Description:

1) **New:** US$1.078billion 4-month warehouse facility issued by DBAG Cayman to the Borrower to purchase a portfolio of primarily (85%-90%) RMBS securities. According to Exposure Management, 75-day VAR for the entire portfolio (considered as 100% cash assets) is 12%. Any warehoused collateral above $500m of this 1.078b total transaction size will be hedged with a 50% hedge ratio, with ABX.HE Baa2/Baa3. Total notional of cash and synthetic assets is capped at 1.078b. **Maturity**: 31 March 2007.

2) **New:** US$ 78 mm margin line (12% PFE) for up to $650m notional Pay-As-You-Go ("PAUG") Credit Default Swaps ("CDS"), referencing ABS securities. CDO (protection seller) will pay credit protection payments and DB London will pay CDS premiums. During the ramp-up period, any physical settlement amounts subsequent to credit events payable by the CDO will be settled by drawing under the RCL. After the closing of the CDO, the 23% PFE will be 4.3x collateralized by segregated note proceeds and/or liquidity equal to 100% of the CDS notional. **Maturity**: legal maturity of 40 years (3 year CDO revolving period plus maximum 37 year CDS tenor) and an expected maturity of ~8 years.

3) **New:** US$[200,000] futures clearing limit to hedge fixed rate assets in the portfolio. **Maturity**: 31 March 2007

4) **New:** US$4.5 mm margin lines (4.5% PFE) for repurchase obligation under which Borrower can borrow and short up to $100 mm notional treasuries and agencies securities. **Maturity**: 31 March 2007

Currency: EUR mn ($1 = €0.80)	Cash	Guarantee	Margin	Whole Loans	Total	Thereof committed	*Previous Total*
Tenor ≤ 1 year	€ 862.4		3.7		€ 866.1	862.4	*0*
1 < T ≤ 6 years							
6 < T ≤ 7 years							
7 < T ≤ 10 years							
Tenor > 10 years			62.4		€ 62.4	0	
Aggregate (By Type)	€ 862.4		66.1		€ 928.5	862.4	*0*
Previous Aggregate	*0*		*0.0*		*0.0*		
Utilisation	0		0.0		0.0		

Securitisation Limits to Servicer Group	€ 979.1	Settlement Limits	KWG13 Total
Direct Credit Limits to Servicer Group	€ 100.4		

Variance from Credit Policy: none

Ownership / Shareholders / Management: The borrower is a Cayman Islands special purpose entity with a US co-issuer. Ordinary shares of the borrower are owned by the co-issuer and the ordinary shares of the co-issuer are held by a charity. At closing, the borrower will issue multiple tranches of CDO notes, distributed via a capital markets offering underwritten by DB, HBK will bear the first loss risk (up to 7.5% of the transaction size). The CDO will be backed by the collateral purchased during the warehouse period. HBK, the collateral manager of the CDO, is an investment management firm set up in October 1991 with approximately $11.0 billion in equity capital under management.

RAROC / Earnings: DB is expected to generate $[6.79] million in underwriting fees, in addition to an interest spread on the RCL (The CDO will be paying L+30 as warehouse interest). DB Fee is calculated based on sum of i) 0.75% x 350mm and ii) 0.65% of any excess investment grade notes over 350mm.

Key Figures – Portfolio Parameters	Expected	Limit
Portfolio Rating	Baa3/Ba1	Baa3/Ba1
Moody's Weighted Average Rating Factor	645	665
Moody's Correlation Factor	22.76%	24.26%
Weighted Average Life	5.0 years	6.0 years
Weighted Average Coupon (fixed collateral)	5.33%	5.18%
Weighted Average Spread (floating collateral)	2.13%	1.75%
% of below investment grades (MDY/S&P)	31.5% / 20.7%	
Synthetic security	55%	65%

Collateral Description

Lines are secured by a diversified pool of primarily RMBS securities carrying weighted average portfolio rating of Baa3/Ba1.

The lowest expected rating on underlying collateral at acquisition is BB/Ba2 (max 30%).

Guarantor: Up to $[80.9]mm joint & several recourse to:
- HBK Investments LP
- HBK Master Fund L.P. and

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1266

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- HBK Fixed Income Ltd

Recommendation:

We recommend approval to issue the US$1.078b RCL by DBAG Cayman to the borrower to facilitate the execution, ramp-up, and placement of the structured finance cash flow CDO. HBK bears the credit risk on the underlying portfolio during the term of the RCL, to the extent of [$80.9m]. Under the terms of the Risk Sharing Agreement, HBK will reimburse the Borrower for any losses resulting from the sale of any portfolio assets (adjusted for mark-to-market gains or losses on the associated hedges) up to $[80.9]m. The warehouse net carry will not be paid to HBK until closing and will be used to offset any losses resulting from the sale of any portfolio.

The RCL will be repaid through the CDO note proceeds upon transaction close. Recommendation is based on

(i) DB's ability to terminate the ramp-up, if necessary,
(ii) DB will be closely monitoring the ramp-up process
(iii) experienced investment manager performing asset selection,
(iv) this is HBK's 8th CDO, their 5th with DB
(v) DB's right of refusal on assets/hedges prior to inclusion in warehouse,
(vi) The CDO group will be hedging any ramp-up over 500m with a 50% hedge ratio short of ABX BBB or BBB- indices, and
(vii) commitment by HBK to reimburse DB for any losses up to $[80.9]m at the time of collateral liquidation. DB shall earn LIBOR+0.30% on the warehouse loan during the warehouse period and structuring/placement fees of approximately $6.79million.

Risks/Mitigants:

Business Risk: The closing of the CDO could be impaired for reasons including:

1) Adverse Market conditions, such as market disruption or spread widening. This risk is mitigated by

(i) DB's right to terminate ramp-up upon adverse change in market conditions or to terminate the engagement letter at any time with ten days' notice.
(ii) high likelihood of CDO transaction completion given HBK commitment to purchase 100% of the Class E and Equity,
(iii) ability to net DB fee income to off-set Senior Note spread widening and maintain Subordinated Interests returns sufficient to close transaction. Based on sensitivity analysis, the spread on the Notes could widen approx 50 bps on average before the equity returns are no longer marketable.

2) Deterioration of the ramped-up assets preventing the portfolio to meet the rating agencies eligibility guidelines. Performance risk is limited considering

(i) the requirement that at least 70% of assets be rated Baa3 or greater, (174m of the ramp up so far is rated Ba1 or Ba2 by Moody's. This constitutes 17.4% of the transaction size, or about 24% of the current ramp-up).
(ii) relative short term warehouse facility and low rating migration risk of ABS,
(iii) none of the non-investment grade securities have been downgraded and all are of recent vintage, and
(iv) DB's veto right to refuse assets/hedges prior to inclusion in warehouse.

Downside scenario: Should the CDO fail to close, or is downsized, HBK will direct the sale of assets in the ramp-up portfolio and will bear first-loss risk in the losses incurred upon such sale up to $80.9m. In addition, all the carry on the collateral during ramp-up will be used to cover any losses should the CDO fails to close and HBK fails to reimburse the Borrower. The net carry is paid to HBK only at CDO Closing after all the losses, if any, have been paid. The net carry is expected be approx $[2]m. Note that the carry is not available to cover spread widening on the notes. Exposure Risk Management has calculated maximum unwind exposure amount of approximately $[120] mn ([12]%PFE) on the $1 bn warehouse if the transaction fails to close, i.e. 1.5x the recourse we have on HBK.

Financial/Hedging risk: DB is currently, or will be after closing of the CDO, a swap counterparty under the following facilities:

- Long CDS ($650mn notional), as DB can ramp-up up to 65% of synthetic ABS (i.e. CDO sells protection to DB);
- Repurchase Obligations to hedge the fixed rate assets. Fixed rate assets will be limited to 5% of the Transaction. During the warehouse period, exposure to fixed rate assets will be hedged using a combination of eurodollar futures, and shorted Agency securities. After the CDO closing, DB will not need enter into an interest rate swap with the CDO because the notional of the fixed rate assets approximately equal the size of the equity tranche.

Periodic payments under the cash waterfall are senior to AAA/Aaa rated Notes. To the extent that DB is not the sole defaulting or the sole affected party, termination payments in case of an Event of Default or a Termination Event (under the ISDA Master) will be paid to DB at least pari passu with interest on AA/Aa2 rated Notes and senior to principal on AAA/Aaa rated Notes. No Supplemental Indenture which adversely affects the rights and obligations of the CDS Counterparty will be effective without the prior consent of such counterparty.

Downgrade provisions linked to DBSI's rating possibly requiring action after a DBSI downgrade were approved by Treasury (see exhibit). Allowed mitigating actions are to either (i) deliver collateral, (ii) obtain a suitable guarantee, or (iii) assign the respective swap to a suitable 3rd party.

Operational / Management Risk: This is HBK's eighth CDO backed by structured product collateral. HBK is a qualified investment manager/sponsor, with a strong track record in fixed income management. HBK has $11.0 billion in equity capital under management. Since its inception in 1991, HBK Fund generated a compounded annual return of 14.55%, net of all fees and expenses. This is a revolving CDO, there is a 0.30% senior management fee, similar to Gemstone CDO II, IV and V. HBK's earlier CDOs are performing as expected, and the Portfolio Manager's experience in managing similar deals successfully is indicative of expected in-line performance of Gemstone CDO V.

CRM assessment:

Strengths:

- Short ramp-up period of 4 months, that limit risks of spread widening on the CDO liabilities and rating migration on the assets.
- Standard structure of the warehouse facility, for a HBK, a repeat CDO Manager (eighth CDO).
- HBK guarantee up to $80.9 mm (vs $120 mm PFE), collateralized by the carry on the underlying assets (approx $2 mn).
- HBK is committed to buy the Equity and BB tranche of the CDO, resulting in high likelihood of the CDO closing as well as strong incentives to select good assets.

Weaknesses:

- Concentration on RMBS assets (85%/90%), of which Subprime borrowers represent (48%).
- Relatively large bucket for non investment-grade ABS (30%). However, it includes only ABS originally rated to such level (no downgraded ABS).
- The new CDO will be the eighth transaction originated by HBK, but one of the first structured with a revolving period.
- Large bucket for long synthetic securities up to 100%. Recovery risk is mitigated by the "pay-as-you-go" structure.

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- Breakage costs for both the Credit default and interest rate swaps are pari passu with the AA interest and senior to the AAA principal payments.

While large (i.e. $1bn), the warehouse facility is relatively standard for an ABS CDO with a large bucket for non-inv't grade bonds. Business is hedging all exposure over $500m with a 50% hedge ratio short of ABX BBB or BBB- indices. Netting of underwriting fees and reduction in equity returns protects against an average 50 bps spread widening, which is a significant cushion considering that the CDO is scheduled to price during the first quarter 2007.

No credit is given to the HBK recourse, given the hedge funds nature of the counterparty.

Batch Strategy: Exposure is consistent with the securitization batch strategy.

Signatures:

Abhayad Kamat **Global CDO Group /** **Vice President**	**Sourav Sen** **Global CDO Group /** **Associate**	**André-Louis Clémot** **CRM-SEC / Director**	

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L Transaction Description / Facility Description

Gemstone CDO VII has engaged HBK to manage a $1.078b revolving cash flow CDO securitization of a portfolio of primarily RMBS assets (the "Target Portfolio") with reinvestments in investment grade assets only. For HBK, the purpose of the transaction is to leverage its ABS portfolio rather than to do an arbitrage transaction.

Warehouse Facility:

HBK as agent for the Borrower pursuant to a Interim Collateral Management Agreement will purchase the Target Portfolio during the warehousing period. DB-issued RCL will finance the Borrower's purchase of the Target Portfolio during the ramp-up period prior to closing. Every bond purchased into the warehouse facility will be subject to HBK's credit process and DB will have the right of refusal on the assets and accompanying hedges prior to inclusion in the warehouse. The Borrower will pay DB Cayman's LIBOR funding costs plus 0.30% on the portfolio during the warehouse period.

Estimated Transaction Timing	
Ramp-up at pricing:	80%
Pricing:	February 2007
Closing:	3-4 weeks after pricing

The proceeds of the CDO notes must be sufficient to repay the full amount of the RCL and interest thereon to DB. In the event of a failure to close the CDO, HBK will direct the sale of the Target Portfolio to pay down the RCL. Under the warehouse terms, HBK will get all the gains and will bear up to $80.9m of the losses experienced on liquidation of the warehoused collateral. However, all the carry on the collateral will be put in reserve during the ramp-up to cover any losses should the CDO fails to close.

HBK and Gemstone CDO VII will enter into covenants that are standard for this type of transaction, including that HBK and Gemstone CDO VII will prepare CDO offering documents containing all required and appropriate disclosures. Also, DBSI has the right not to proceed with the offering or the financing of the securities if there is any material adverse change in

(i) the business operations or financial condition of HBK, or
(ii) a material portion of the warehoused collateral, or
(iii) for any other reason, subject to ten days' notice to HBK

CDO Exit:

Upon closing, Gemstone CDO VII will issue CDO notes representing an undivided interest in the assets. The expected CDO capital structure is shown in Exhibit C. HBK will purchase 100% of the Class E (Ba1/BB+) and the Equity; the Equity is expected to be around 7.5% of total deal size. Indicative equity price is [59.6]% and we expect no discount for BB as of now. No minimum IRR is guaranteed on the equity.

The CDO is structured as a revolving "cash flow" CDO with a 3 yr reinvestment period with reinvestments only in IG assets. Gemstone CDO VII will be subject to OC tests (based on par value of assets) and interest coverage tests (based on current interest).

DB, as the lead manager, will be responsible for placing the investment grade notes (triple-A to triple-B). Given the earlier success with HBK's deals, DB is confident that the Notes will be placed. The Class E and Equity has already been committed to by HBK, the Manager, and this alignment of interest with the investors will help in the marketing process.

Marketing:

This is the eighth structured product CDO on which HBK Investments is the collateral manager, an established manager in the CDO market. HBK and DB are looking to get in and out of the deal quickly within the next months. Gemstone VII being practically similar to, but larger in scale than, Gemstone V, we anticipate a very efficient transaction.

The transaction marketing materials, portfolio disclosure, breakeven default analysis and other transaction information is expected to be made available well within the time frame and investor meetings and conference calls will be arranged as needed.

The Class A Notes will be rated Aaa/AAA by Moody's and S&P and will be marketed to traditional CDO Class A Note buyers, including CP conduits, banks, high grade CDOs and insurance companies. The Class B, C and D Notes will be offered to existing ABS and CDO investors globally. Please note that Class E and Equity have been committed by HBK.

Given experienced manager, quick ramp-up, BB and equity commitment by manager, we are confident that all of the Notes will be fully subscribed.

LIBOR Swaps:

No interest rate swap is expected on the transaction since the exposure to the fixed rate assets will be approximately the same as the equity tranche thickness.

Credit default Swaps:

The CDO will sell protection to DB. The Credit events under the Pay-as-you-go CDS will be standard conditions:

(a) Failure to Pay Principal (by the scheduled termination date or final amortization date of the Reference Obligation);
(b) Writedown (any form of writedown (except implied writedowns)/applied loss/forgiveness/principal deficiency resulting in a reduction in the outstanding principal amount of the reference obligation or a reduction of the current interest payable on the reference obligation);
(c) Distressed Ratings Downgrade (Caa2 or below by Moody's or CCC or below by S&P or Fitch); and

If there is a VFN, the amount of synthetic CDS that exceeds the VFN will be invested in GIC or similar instrument earning approximately LIBOR-[0.06]%.

ISDA Credit Terms:

The swap counterparty will be a secured party under the indenture of CDO. Credit terms under the ISDA schedule are expected to be as follows:

(a) cross default will not apply to either party. However, Event of Default under the indenture is an ATE (see below).

(b) Bankruptcy definition (section 5(a)(vii)) is amended with respect to the CDO so that it will be a termination event if the CDO becomes unable to pay principal or interest on the Notes of the Controlling Class.

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(c) Additional Termination Events are:
(i) Redemption of all the CDO Notes,
(ii) Event of Default under Indenture (after CDO closing),
(iii) Cancellation Date or Event of Default under Credit Agreement (prior to CDO closing),
(iv) Amendment of Indenture or Credit Agreement without DB consent,
(v) Termination of Transaction pursuant to Indenture (applies only to the affected transaction)

(d) Change of manager is not a termination event, as it is governed by the indenture.

The swap will be subject to downgrade provisions requiring DBNY to deliver collateral upon a downgrade (as approved by Treasury).

II. DB Relationship:
DB client since 1992, HBK is important to Global Markets. Over time, DB has become one of HBK's largest trading counterparties. Apart from DB, they maintain prime brokerage accounts at other investment banks. As placement agent for the Gemstone CDO VII transaction, DB will generate $[6.8] million in placement fees in connection therewith. HBK is likely to repeat the issuance of this type of transaction in the future and DB should have a chance to benefit from additional structuring, placement and underwriting assignments.

III. Expected Collateral Description / Assessment:
The Portfolio will consist of a diversified pool of primarily investment grade asset backed securities. The collateral will comprise predominantly of floating rate assets. Anticipated pool composition is as follows. Assets are sourced from market or other HBK Funds. Assets are acquired subject to DB approval of asset as well as price of acquisition.

Moody's	Aaa	Aa1	Aa2	Aa3	A1	A2	A3	Baa1	Baa2	Baa3	Ba1	Ba2	
RMBS Midprime	2.83%				1.41%		0.77%	4.61%	1.74%	16.34%	5.36%	5.99%	39.07%
RMBS Subprime					0.82%			1.19%	3.70%	23.26%	7.81%	10.88%	47.70%
RMBS Prime												1.41%	1.41%
CDO			4.71%										4.71%
CMBS Conduit						2.36%	0.92%	0.16%					3.44%
Student Loans						1.88%	1.79%						3.67%
													0.00%
													0.00%
									5.45%	39.63%	13.19%	18.28%	100.00%

S&P	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	
RMBS Midprime	2.83%				1.41%	4.54%	3.90%	5.31%	8.36%	9.79%	2.94%		39.07%
RMBS Subprime					0.82%	0.47%		5.90%	11.19%	11.51%	8.00%	9.80%	47.70%
RMBS Prime										1.41%			1.41%
CDO			4.71%										4.71%
CMBS Conduit						2.36%	0.92%		0.16%				3.44%
Student Loans						3.67%							3.67%
													0.00%
													0.00%
									19.71%	22.71%	10.94%	9.80%	100.00%

The portfolio will be mostly comprised of real estate related securities (~93% including CMBS). The remaining will be comprised of consumer ABS and CDOs. No Corporate CDOs are anticipated. There will be no IOs or NIMs in the transaction. This portfolio will be revolving.

Due to the concentration in real estate assets, the portfolio will have relatively large exposure on mortgage servicers. Expected servicer concentrations are as follows:
15% or more allowance for [2]
7.5% to 15% allowance for [5]
less than 7.5% remaining
The servicer stratification is expected to be like that in Gemstone V: most servicers are expected to be at 7.5% or less, each, with the exception within their respective limits.

IV. Sponsor / Servicer Description and Assessment:
HBK will act as the collateral manager of the CDO. HBK is an investment management firm set up in October 1991 with approximately $11.0billion in equity capital under management. HBK employees over 260 individuals in five offices around the world. Their main office is in Dallas, Texas, and they maintain subsidiary offices in New York, London, Hong Kong and Tokyo. From inception through September, 2006, HBK Fund generated a compounded annual return of 14.55%, net of all fees and expenses.

Performance of the 4 CDO previously underwritten by DB:

Sandstone CDO

Collateral Quality Tests	Test Level	At Closing	As of 9/29/06*	P/F
Weighted Average Spread	2.87%	2.90%	2.78%	F
Weighted Average Coupon	5.27%	5.31%	5.85%	P
Diversity Score	11.0	11.9	11.5	P
Moody's WARF	470	446	426	P

* Note: Sandstone closed June 2004

Gemstone CDO II

Collateral Quality Tests	Test Level	At Closing	As of 9/29/06*	P/F
Weighted Average Spread	2.12%	2.16%	2.18%	P
Weighted Average Coupon	5.44%	5.55%	5.56%	P

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Moody's WARF	664	646	646	P

* Note: Gemstone CDO II closed May 2005

Gemstone CDO IV

Collateral Quality Tests	Test Level	At Closing	As of 9/29/06*	P/F
Weighted Average Spread	1.81%	1.88%	1.85%	P
Weighted Average Coupon	5.21%	5.31%	5.27%	P
Moody's WARF	639	646	647	P

* Note: Gemstone CDO IV closed January 2006

Gemstone CDO V

Collateral Quality Tests	Test Level	At Closing	As of 9/29/06*	P/F
Weighted Average Spread	1.80%	1.90%	1.90%	P
Weighted Average Coupon	4.82%	5.02%	5.00%	P
Moody's WARF	626	609	609	P

* Note: Gemstone CDO V closed May 2006

V. Sensitivity Analysis:

Exposure Management has analyzed a potential exposure to loss on the inventory of bonds should the transaction fail to close as [12]% of the Target Portfolio This PFE is conservative and about [1.5]x higher than the guarantee provided by HBK.

Spread widening on the CDO Notes (without assuming spread widening on the underlying collateral) of up to 50 bps can be absorbed by:

- The $[6.8] million upfront fee due to DB as placement and structuring agent
- The L + 0.30% spread on the ramped-up portfolio, which may generate approximately $[0.4] mn of additional revenue over an average of half the warehouse period of 4 months
- A reduction of the expected return on equity from about [45]% down to [30]%, before HBK may lose its incentive to do the transaction.

Assuming an Equity price of [59.8]%, the following is the IRR table. The BB+ price is assumed for modeling purposes to be [100.0]%

	0.00%	0.25%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.00%
Equity	47.9%	46.8%	45.5%	44.2%	42.9%	41.0%	38.3%	35.1%	31.4%

Gemstone VII CDO

Capital Structure		Size	Avg life	Base Spread	B/E Spread	Changes
Class A-1	AAA	$699.98	5.30	0.250%	0.42%	0.17%
Class A-2	AAA	$107.88	7.00	0.430%	0.73%	0.30%
Class B	AA	$69.03	7.30	0.600%	1.02%	0.42%
Class C	A	$48.54	7.30	1.600%	2.71%	1.11%
Class D	BBB	$64.71	7.30	3.750%	6.36%	2.61%
Class E	BB+	$23.73	8.00	6.500%	11.02%	4.52%
Equity	NR	$38.83	8.00	45.000%	30.00%	-15.00%
Total / Avg [1]	A-	$ 1,052.66	6.0	0.73%	1.23%	0.506%
Structuring Fees	0.85%	$6.786		Cushion [2]	$24.23	($0.00)
Ramp-up carry	0.30%	$0.41	0.33	Break-Even Multiplier [3]		1.70x

(1) Implied rating of the facility is the WARF of the CDO liabilities (using "B-" for unrated equity).

(2) Arbitrage Cushion = structuring fees + ramp-up carry + PV of reduction in ROE

(3) Stress factor applied to the spread of each tranche of the capital structure, resulting in a $0 cushion.

VI. Summary / Conclusion:

Approval of ramp-up facility is recommended on the basis of the short-term financing, the diversity of the portfolio, the large portion of investment grade quality of the collaterals, and the relatively good acceptance of the investment manager by the market (eighth CDO).

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EXHIBITS
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A Risk Score Sheet
B Term Sheet
C Expected Capital Structure
D Collateral Manager Information
E Exposure Management Report
F Treasury Approval for Downgrade Collateralization
G Highly Confident Memo

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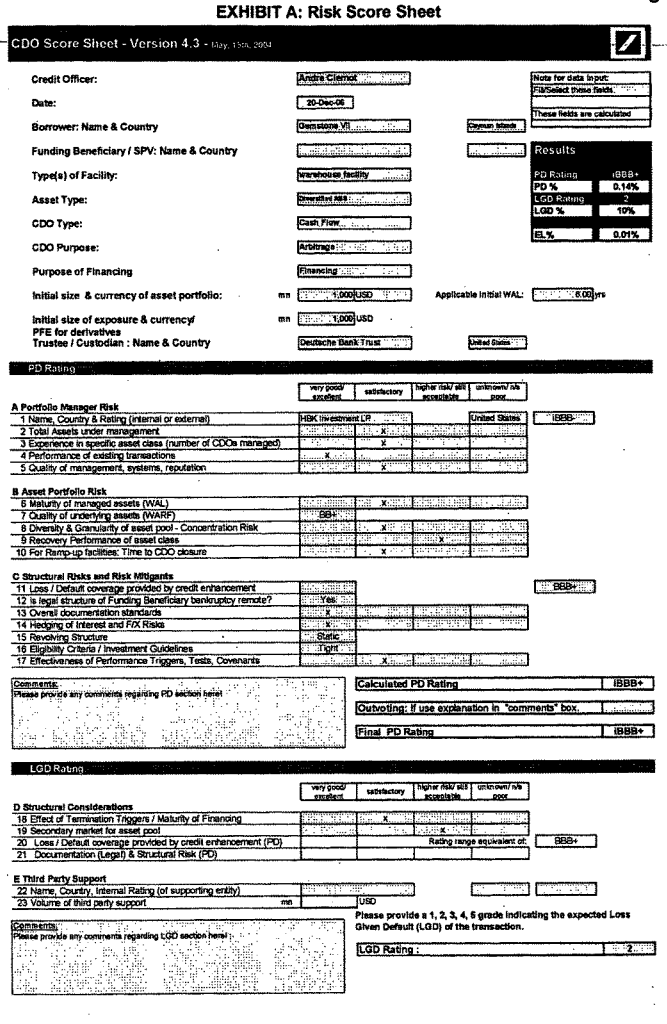
EXHIBIT A: Risk Score Sheet



CDO Score Sheet - Version 4.3 - May, 15th, 2004

Credit Officer:	Andrea Clemot		Note for data input:	
Date:	20-Dec-06		Fill/Select these fields:	
Borrower: Name & Country	Gemstone VII	Cayman Islands	These fields are calculated	
Funding Beneficiary / SPV: Name & Country			Results	
Type(s) of Facility:	Warehouse facility		PD Rating	iBBB+
Asset Type:	Diversified ABS		PD %	0.14%
CDO Type:	Cash Flow		LGD Rating	2
CDO Purpose:	Arbitrage		LGD %	10%
Purpose of Financing	Financing		EL%	0.01%
Initial size & currency of asset portfolio: mn	1,000 USD	Applicable Initial WAL:	6.00 yrs	
Initial size of exposure & currency/ PFE for derivatives mn	1,000 USD			
Trustee / Custodian : Name & Country	Deutsche Bank Trust	United States		

PD Rating

		very good/ excellent	satisfactory	higher risk/ still acceptable	unknown/ n/a poor	
A Portfolio Manager Risk						
1 Name, Country & Rating (internal or external)	HBK Investment LP				United States	iBBB-
2 Total Assets under management			x			
3 Experience in specific asset class (number of CDOs managed)			x			
4 Performance of existing transactions		x				
5 Quality of management, systems, reputation			x			
B Asset Portfolio Risk						
6 Maturity of managed assets (WAL)			x			
7 Quality of underlying assets (WARF)	BB+					
8 Diversity & Granularity of asset pool - Concentration Risk			x			
9 Recovery Performance of asset class				x		
10 For Ramp-up facilities: Time to CDO closure			x			
C Structural Risks and Risk Mitigants						
11 Loss / Default coverage provided by credit enhancement						BBB+
12 Is legal structure of Funding Beneficiary bankruptcy remote?	Yes					
13 Overall documentation standards	x					
14 Hedging of Interest and FX Risks	x					
15 Revolving Structure	Static					
16 Eligibility Criteria / Investment Guidelines	Tight					
17 Effectiveness of Performance Triggers, Tests, Covenants			x			

Comments:
Please provide any comments regarding PD section here!

Calculated PD Rating	iBBB+
Outvoting: If use explanation in "comments" box.	
Final PD Rating	iBBB+

LGD Rating

		very good/ excellent	satisfactory	higher risk/ still acceptable	unknown/ n/a poor	
D Structural Considerations						
18 Effect of Termination Triggers / Maturity of Financing			x			
19 Secondary market for asset pool				x		
20 Loss / Default coverage provided by credit enhancement (PD)					Rating range equivalent of:	BBB+
21 Documentation (Legal) & Structural Risk (PD)						
E Third Party Support						
22 Name, Country, Internal Rating (of supporting entity)						
23 Volume of third party support mn		USD				

Comments:
Please provide any comments regarding LGD section here! :

Please provide a 1, 2, 3, 4, 5 grade indicating the expected Loss Given Default (LGD) of the transaction.

LGD Rating :	2

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EXHIBIT B
Portfolio Terms

EXPECTED PORTFOLIO TERMS

Key Figures –	Expected	Limit
% min Investment Grade	72% / 87%	70%
Moody's Weighted Average Rating Factor	662	682
Min Moody's Correlation Factor	22.76%	24.26%
Weighted Average Life	4.6 years	5.0 years
Weighted Average Coupon (fixed collateral)	5.33%	5.18%
Weighted Average Spread (floating collateral)	2.28%	2.13%
% min RMBS / CMBS	90%	85%
Discretionary Sales	n/a	20%
% max Fixed rate assets	6.1%	10%

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EXHIBIT C

Expected Capital Structure

Summary Details of Expected Capital Structure

Class	Rating (Moody's/S&P)	Tranche Size ($)	Tranche Size (%)	Average Life to Call (yrs)	Spread	Legal Final
Class A-1 (unfunded)	AAA/Aaa	699,975,705	64.90%	5.3	L + 0.2500% / L + 0.3200%	February 2047
Class A-2	AAA/Aaa	107,854,500	10.00%	7.0	L + 0.430%	February 2047
Class B	AA/Aa2	86,026,860	8.40%	7.3	L + 0.600%	February 2047
Class C	A/A2	48,534,525	4.50%	7.3	L + 1.600%	February 2047
Class D	BBB/Baa2	64,712,700	6.00%	7.3	L + 3.750%	February 2047
Class E	BB+/Ba1	23,727,990	2.20%	8.0	L + 6.500%	February 2047
Equity		64,712,700	6.00%			
Total		1,078,545,000	100.00%			

PORTFOLIO CHARACTERISTICS	Required		Required
Weighted Average Fixed Coupon (min)	5.18%	Weighted Average Life (max)	6.0 years
Weighted Average Floating Spread (min)	2.13%	% of Fixed rate assets (max)	10.0%
Weighted Average Moody's Rating (max)	Baa3/Ba1		
Weighted Average S&P Rating (max)	BBB-/BB+		

ONGOING FEES AND EXPENSES	
Senior Management Fee	0.30%

DATES AND TIMING	
Revolving Period	3 years

Preliminary and subject to change

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Exhibit D

Collateral Manger Information

Collateral Manager Overview – HBK Investment L.P. Section 1

Overview

- HBK Investments L.P. ("HBK") is an investment management firm founded in October 1991 with equity capital under management of approximately $11 billion. HBK's structured finance team manages $5.0 billion in structured finance securities, including $3.6 billion of structured product CDOs, as of June 8, 2006[1]
- HBK's main office is in Dallas, Texas, with branch and subsidiary offices in New York, London, Hong Kong and Tokyo
- HBK employs 275 individuals in its five offices globally
- HBK's senior management team has been working together since 1994
- The firm strives to provide superior risk-adjusted rates of return with relatively low volatility and relatively low correlation to most major market indices
  - pursuing arbitrage opportunities from price disparities between related securities
  - "multi-strategy" approach with a sub-categorization of either "market neutral" or "absolute return"
- From inception through September, 2006, HBK generated a compounded annual return of 14.55%, net of all fees and expenses and assuming reinvestment of all distributions[1][2]
  - positive returns for every consecutive 12-month period in its history
- HBK currently manages seven ABS CDOs
  - CDOs as a term-financing source, not as a fee-generation arbitrage vehicle
  - performance snapshots of prior CDOs are provided in Section 2
  - all junior tranches of Sandstone CDO, HBK's first ABS CDO, are currently on upgrade watch by Standard & Poor's & Moody's

(1) Source: HBK.
(2) Past performance is not indicative of future performance.

Collateral Manager Overview – HBK Investment L.P. Section 1

Business Units

HBK Investments L.P.

Credit: Corporate, Non-Corporate	Volatility, Quantitative and Other
Structured Products – ABS, CMBS, Banks, CDOs, structured notes and other • Emerging Markets – fixed income and equity securities issued in countries other than G7 nations, sovereign and private issuers • Developed Markets – U.S. and International – credit driven investments in developed market corporate securities – IG, HY, par and distressed bank debt, trade claims, equity derivatives – seek best risk/reward opportunity within capital structure • Private Placements – equity linked privately negotiated investments in U.S. and non-U.S. companies	• Convertible Arbitrage – US and International – publicly traded equity derivatives in US, Japan, Europe and Asia – convertible bonds, convertible preferred stock, warrants or options • Volatility – volatility relationships amongst options on equities and equity indices • Quantitative Strategies – purchase and sale of stocks related index products and exchange-traded products to take advantage of short-term and long-term statistical phenomena – involves a highly diversified portfolio that is intended to control market exposure and exposure to variety of other factors • Insurance – insurance related investments
Equity, Event or Spread Driven, Relative Value	**Developed Markets Fixed Income Investments**
• Risk arbitrage, reorganization and other event-driven strategies in different markets, including U.S., Europe and Asia • Securities of companies involved in significant transactions – mergers, acquisitions, divestitures, tender offers, spin-offs and other similar corporate events • Price disparity between multiple share classes or positions in the capital structure • Relative value investments in two companies in same industry	• Government bonds, Agencies, MBS, ABS • Fixed income securities primarily in G-7 nations • Seeks mispricings that occur in various fixed income markets • Hedge foreign exchange and interest rate exposure

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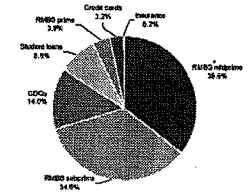
Structured Products Group

- HBK's Structured Products Group is one of the leading purchasers and long-term investors in credit sensitive mortgages
  - the group is responsible for managing the structured products portfolio, including RMBS and ABS, a component in HBK's overall strategy since 2002
- HBK's business model focuses on deriving returns from buy and hold income revenue instead of short-term trading
- HBK's investment model utilizes proprietary default, prepay, and severity loan level models to make investments in the residential market
- CDO program provides long-term committed financing to HBK
- HBK has retained 100% of the equity from CDO transactions resulting in strong alignment of interests between HBK and investors

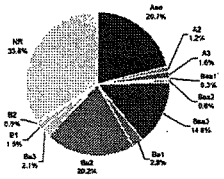
Structured Products Portfolio

- RMBS / ABS have been a component in HBK's overall strategy since 2002. HBK manages a structured products portfolio of approximately $5.0 billion, including $3.6 billion of structured product CDOs[1]
- HBK follows a buy-and-hold strategy for its ABS investments; HBK hedges the interest rate exposure and retains the credit exposure of its ABS portfolio
- Currently, there are only three downgrades[2] in HBK's ABS portfolio

Asset Type



Rating[3]



(1) As of November 1, 2009.
(2) Of the assets currently in the portfolio, not including assets that have been driven.
(3) A portion of the "NR" assets includes residuals.
Source: HBK

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Exhibit E
Exposure Management Report

Weilong Li/NewYork/DBNA/DeuBa
12/08/2006 08:35 PM

To
Chehao Lu/NewYork/DBNA/DeuBa@DBAmericas
cc
Raquel Ajona/db/dbcom@DBAmericas, Sourav Sen/NewYork/DBNA/DeuBa@DBAmericas, Sajjad Cheema/NewYork/DBNA/DeuBa@DBAmericas, Tradelog NY/db/dbcom@DBAmericas
Subject
Re: G7 - PFEs

Hi Chehao,

Given the current BBB/BBB- spread widening environment, housing price downward trend, and increase in defaults and delinqencies, we calculated 2.5 month VAR of the warehouse facility as 12% (this is a bit more conservative compared to 10% for earlier deals)

based on the following assumptions:

1. The pricing of the warehouse occurs at least monthly, and the liquidation period is 45 days. If the price of the portfolio drops below par, DB would trigger the liquidation.

2. For BBB/BBB- rated RMBS, we assumed 200 bps move of credit spread over this period.

3. We also included default losses over this period which is around 1.5%.

The PFE is 23% for the PAUG CDS reached around year 3. DB is exposed to credit spread widening of the ABS securities. We have stressed BBB- spread to 900 bps level and BBB to 450 bps level.

The PFE for the interest rate swap is 1.2 MM reached in year 2. DB is exposed to rate decrease.

Please let me know if you have any questions.

Regards,

William

Weilong (William) Li
Exposure Management
Deutsche Bank AG.
60 Wall Street
New York, NY 10005

212-250-7998
weilong.li@db.com

Chehao Lu/NewYork/DBNA/DeuBa
12/05/2006 06:49 PM

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To
Weilong Li/NewYork/DBNA/DeuBa@DBAmericas, Raquel Ajona/db/dbcom@DBAmericas
cc
sourav.sen@db.com
Subject
G7 - PFEs

William/Raquel,

please see below for the revised CA,

[attachment "Gemstone VII CA 12.05.06 (Increase).doc" deleted by Weilong Li/NewYork/DBNA/DeuBa]

Beginning Date	Ending Date	Swap Notional
2/18/2007	5/18/2007	35,250,000
5/18/2007	8/18/2007	35,250,000
8/18/2007	11/18/2007	35,250,000
11/18/2007	2/18/2008	35,250,000
2/18/2008	5/18/2008	35,250,000
5/18/2008	8/18/2008	35,250,000
8/18/2008	11/18/2008	35,250,000
11/18/2008	2/18/2009	35,250,000
2/18/2009	5/18/2009	33,210,744
5/18/2009	8/18/2009	32,628,099
8/18/2009	11/18/2009	32,482,438
11/18/2009	2/18/2010	21,120,868
2/18/2010	5/18/2010	11,798,554
5/18/2010	8/18/2010	8,011,364
8/18/2010	11/18/2010	2,621,901
11/18/2010	2/18/2011	0

thanks,
Che

Che Lu
Global CDO Group
Deutsche Bank Securities Inc.
212-250-7801

Weilong Li/NewYork/DBNA/DeuBa
10/23/2006 06:08 PM

To: Andre-Louis Clemot/NewYork/DBNA/DeuBa@DBAmericas, Chehao Lu/NewYork/DBNA/DeuBa@DBAmericas
cc: Raquel Ajona/db/dbcom@DBAmericas, Tradelog NY/db/dbcom@DBAmericas
Subject: Re: Fw: Gemstone CDO VII - Credit Application[2]

Hi Andre-Louis,

The 2.5 month VAR of the warehouse facility is 10% based on the following assumptions:

1. The pricing of the warehouse occurs at least monthly, and the liquidation period is 45 days. If the price of the portfolio drops below par, DB would trigger the liquidation.

2. For BBB rated RMBS, we assumed 150 bps to 200 bps move of credit spread over this period.

3. We also included default losses over this period which is around 1.5%.

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The PFE of PAUG credit swap is around 21% reached around year 3. DB is exposed to credit deterioration of the underlyings.

For the repurchase margin line, it is 4.5% if the securities are all 30 year treasuries, and 4% for the rest of the treasuries and agencies.

Please let me know if you have any questions.

Regards,

William

Weilong (William) Li
Exposure Management
Deutsche Bank AG.
60 Wall Street
New York, NY 10005

212-250-7998
weilong.li@db.com

- (1) -
Notes:///85256B8700617DBC/38D46BF5E8F08834852564B500129B2C/5905974E264849E985257210006E7320

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Exhibit F
Treasury Approval of Downgrade Collateralization

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DB_PSI_00237670

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EXHIBIT G
Highly Confident Memo

To	Credit Risk Management, NY
From	Global CDO Group
Subject	**Gemstone CDO VII – Structured Product CDO**
Date	December 20, 2006

This memorandum outlines our views on the availability of the capital markets for HBK Investments L.P.'s ("HBK") eighth structured product CDO, Gemstone CDO VII ("Gemstone CDO VII"), to finance the proposed $1.1 billion ABS/CMBS/RMBS warehouse facility (the "Facility") through the term CDO market.

The Facility will be used to purchase a portfolio of RMBS and ABS. The Target Portfolio will be selected by HBK subject to rating agency limitations and other constraints, such as collateral quality tests limiting asset concentration by asset class, by servicer ratings, by credit ratings and by geographic domicile.

The Global CDO Group successfully executed four HBK CDOs in the past. Sandstone CDO closed in 2004, Gemstone CDO II closed in May 2005, Gemstone IV closed in January 2006 and Gemstone V closed in May 2006.

HBK is an experienced structured product collateral manager, currently managing seven ABS CDOs and can successfully issue another ABS CDO transaction in the course of the coming months.

We are highly confident that the Facility will be taken out through the term CDO capital markets within the next 3-4 months. This is supported by the following:

- The successful execution of Sandstone CDO in 2004, Gemstone CDO II (closed in May 2005), Gemstone CDO IV (closed in January 2006) and Gemstone CDO V (closed in May 2006). HBK has also executed Gemstone CDO I, III and VI with Lehman.
- Deutsche Bank will get a commitment from HBK for 100% of the Class E and Equity issued by Gemstone CDO VII.
- The CDO's characteristics and investment guidelines are expected to be almost identical to HBK's recently-structured product CDO transaction that closed in May 2006 and was underwritten by DB.
- Transaction is a core source of financing for HBK's business, and HBK, as an investment manager, is committed to the transactions as evidenced by HBK's purchase of 100% of Equity in its past DB-underwritten CDOs – Sandstone CDO, Gemstone CDO II, Gemstone CDO IV and Gemstone CDO V.
- Ability to use some or all of the Deutsche Bank fee income to offset Senior Note spread widening and maintain Subordinated Interests returns sufficient to close transaction

DBSI will act as Structuring Agent and Lead Manager for Gemstone CDO VII and plans to bring it to market in March 2007.

Michael Herzig
Managing Director
Global CDO Group

Michael Lamont
Managing Director
Global CDO Group

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V&T

Securitization Credit Report Date: dd/mm/yy

Dr. Ackermann | Dr. Barsiger | Di Iorio | Dr. v. Heydebreck | Lamberti

CDO Report | CDO Scorecard | Waterfall Positioning | Review

Borrower (full legal name incl. legal address and domicile country)	Gemstone CDO VII Ltd. ("Gemstone VII") Elizabethan Sq, George Town, Grand Cayman, Cayman Islands
Funding Beneficiary	n/a
select	
select	

Servicer Group:	HBK				
Paragon Org ID	6909412	Batch Code	67	SIC:	6733
DB Business	CDO	DB Booking Entity		DB London	
x Standalone Risk		Part of a different Group Report			
Borrower's majority owner / stake:	n/a				

KWG 13	No	KWG 15	No
FED:	Pass	Authority	C2
SEC:	Performing	LLP:	None
Asset Category	CDO: Structured Finance		
	Asset Pool considered to be GRANULAR		
Weakest ext. rating of underlying assets	BB-		
Remaining average life of assets (yrs)	< 5-7 years		
CA Review Date (next/previous)	3/09	3/07	
Rating Rev. date (next/previous)	3/08	3/07	
Counterparty PD rating :	iAAA		

	Product Type	DB Facility IPD	Previous IPD	S&P	Moody's	Fitch
<Facility a>	Margin	iAAA	(BBB+)	NR	NR	NR
<Facility b>	select	select	select	select	select	select
Servicer Ratings (internal PD / external)		BBB-	(BBB-)	NR	NR	NR

Deal/portfolio description (for margin: max. notional amount; if alternative form of liquidity for ABCP):

Holding Period	N/A.	Maturity Date	dd/mm/yy

1) **Increase / Review:** US$ 150 (prev. $78 mm) margin line (23% PFE) for up to $850m notional Pay-As-You-Go ("PAUG") Credit Default Swaps ("CDS"), referencing ABS securities. CDO (protection seller) will pay credit protection payments and DB London will pay CDS premiums. The 23% PFE is 4.3x collateralized by a GIC account equal to 100% of the CDS notional. **Maturity:** legal maturity of 38 years (2 year CDO revolving period) and an expected maturity of ~7 years.

2) **Cancel:** US$1.078billion 4-month warehouse facility issued by DBAG Cayman to the Borrower to purchase a portfolio of primarily (85%-90%) RMBS securities. According to Exposure Management, 75-day VAR for the entire portfolio (considered as 100% cash assets) is 12%. Any warehoused collateral above $500m of this 1.078b total transaction size will be hedged with a 50% hedge ratio, with ABX.HE Bas2/Bas3. Total notional of cash and synthetic assets is capped at 1.078b. **Maturity:** 31 March 2007.

3) **Cancel:** US$(200,000) futures clearing limit to hedge fixed rate assets in the portfolio. **Maturity:** 31 March 2007

4) **Cancel:** US$4.5 mm margin lines (4.5% PFE) for repurchase obligation under which Borrower can borrow and short up to $100 mm notional treasuries and agencies securities. **Maturity:** 31 March 2007

Currency: EUR mm ($1 = €0.80)	Cash	Guarantee	Margin	Whole Loans	Total	Thereof committed	Syndication Reduction Target	Net Risk after Syndication
Tenor ≤ 1 year								
1 < T ≤ 5 years								
5 < T ≤ 7 years								
7 < T ≤ 10 years								
Tenor > 10 years			120.0		120.0	0.0	0	120.0
Aggregate (By Type)	0.0		120.0		€ 120.0	0.0	0	120.0
Previous Aggregate	862.4		66.1		928.5			
Utilisation	0		0.0		0.0			

Securitisation Limits to Servicer Group	€ 200	Settlement Limits	KWG13 Total
Direct Credit Limits to Servicer Group	€ 100.4		

Variance from Credit Policy: none

Ownership / Shareholders / Management: The borrower is a Cayman islands special purpose entity with a US co-issuer. Ordinary shares of the borrower are owned by the co-issuer and the ordinary shares of the co-issuer are held by a charity. At closing, the borrower will issue multiple tranches of CDO notes, distributed via a capital markets offering underwritten by DB. HBK will bear the first loss risk (up to 7.5% of the transaction size). The CDO will be backed by the collateral purchased during the warehouse period. HBK, the collateral manager of the CDO, is an investment management firm set up in October 1991 with approximately $11.0 billion in equity capital under management.

RAROC / Earnings: DB generated $4.7 million in underwriting fees, in addition to an interest spread on the RCL (The CDO will be paying L+30 as warehouse interest).

Key Figures -- Portfolio Parameters	Expected	Limit	Collateral Description
Portfolio Rating	Baa3/Ba1	Baa3/Ba1	Lines are secured by a diversified pool of primarily RMBS

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1266

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Moody's Weighted Average Rating Factor	647	665	securities carrying weighted average portfolio rating of Baa3/Ba1.
Moody's Correlation Factor	21.55%	23.05%	The lowest expected rating on underlying collateral at acquisition is BB/Ba2 (max 30%).
Weighted Average Life	4.0 years	5.0 years	
Weighted Average Coupon (fixed collateral)*	5.38%	5.25%	
Weighted Average Spread (floating collateral)*	2.44%	2.20%	
% of below investment grades (MDY/S&P)	25.5%/6.6%		
Synthetic security	57%	65%	Guarantor:
*subject to Coupon/Spread covenant vectors			

Risks/Mitigants:

Business Risk: The portfolio is concentrated on RMBS obligations, with 57.6%, 20.2% and 1.9% of the RMBS exposure represented by 2005, 2006 and 2007 vintages, respectively, which results in significant vintage risk. The current mix of the RMBS types are 53.0% Midprime, 35.3% Subprime and 1.4% Prime assets, totalling 89.6% RMBS (no limits on Subprime %). (RMBS accounts for ~90.0% of the initial collateral portfolio).

The initial % of below investment grade assets is 26.1%. The underlying RMBS collateral in the CDO may include up to 0% of IO obligations and up to 0% of Option ARMs/Neg Am, which are particularly exposed to resal risk. Collateralized debt obligations in this transaction will be limited to 10%.

Unsold tranche status:
All unsold tranches have been taken back by HBK except for the Class A-1B($400mm). Currently, we are working with Redacted to see if they will be interested to take the tranche.
The plan for distribution, if Redacted decides not to take the tranche, will be a senior sequential repack. The Class A-1B will be broken into two tranches. DB will take the senior part (Class A-1B(I) $200mm) and HBK will take the bottom part (Class A-1B(II) $200mm). Once the repack is setup, then DB will try to syndicate the Class A-1B(I)

Repo to HBK
For now, HBK holds the $200mm of the Class A-1B through DB repo financing. The repo will be rolled on a weekly basis until Redacted makes its final decision.

Financial/Hedging risk: The CDO can have up to 65.0% of synthetic asset. DB is currently buying protection from the CDO on a notional of $825.5 mm of credit default swaps (up to $650 mm). CDO Notes proceeds in an amount equal to the notional of the CDS were deposited in a segregated account and invested in a GIC with GE Funding Capital Market Services. Upon an credit event, proceeds from the segregated account will be applied directly to the payment of the settlement amount. Since the CDO uses the fixed cap version of the PAUG, the Available Funds Cap risk for the CDO is limited compared to cash RMBS exposures (the protection seller assumes the cap risk by netting the interest shortfall due to the protection buyer against and up to the CDS premium).

Operational / Management Risk: This is HBK's eighth CDO backed by structured product collateral. HBK is a qualified investment manager/sponsor, with a strong track record in fixed income management. HBK has $11.0 billion in equity capital under management. Since its inception in 1991, HBK Fund generated a compounded annual return of 14.55%, net of all fees and expenses. This is a revolving CDO, there is a 0.30% senior management fee, similar to Gemstone CDO II, IV and V. HBK's earlier CDOs are performing as expected, and the Portfolio Manager's experience in managing similar deals successfully is indicative of expected in-line performance of Gemstone CDO V.

CRM assessment:

Strengths:
- Exposure to the CDO is collateralized
- Experienced CDO Manager that invested in the equity tranche

Weaknesses:
- Concentration to the 2005 and 2006 vintage of the US RMBS market
- Large bucket for BB securities
- Large bucket for synthetic securities up to 65%.

Rating and LGD of the counterparty are upgraded to reflect the seniority of the post-closing positions in the CDO.

Batch Strategy: Exposure is consistent with the securitization batch strategy.

Signatures:

Abhayad Kumar
Global GIMS Group /
Vice President

KONSTANTIN KULEV
VICE PRESIDENT

André-Louis Clémot
CRM-SEC / Director

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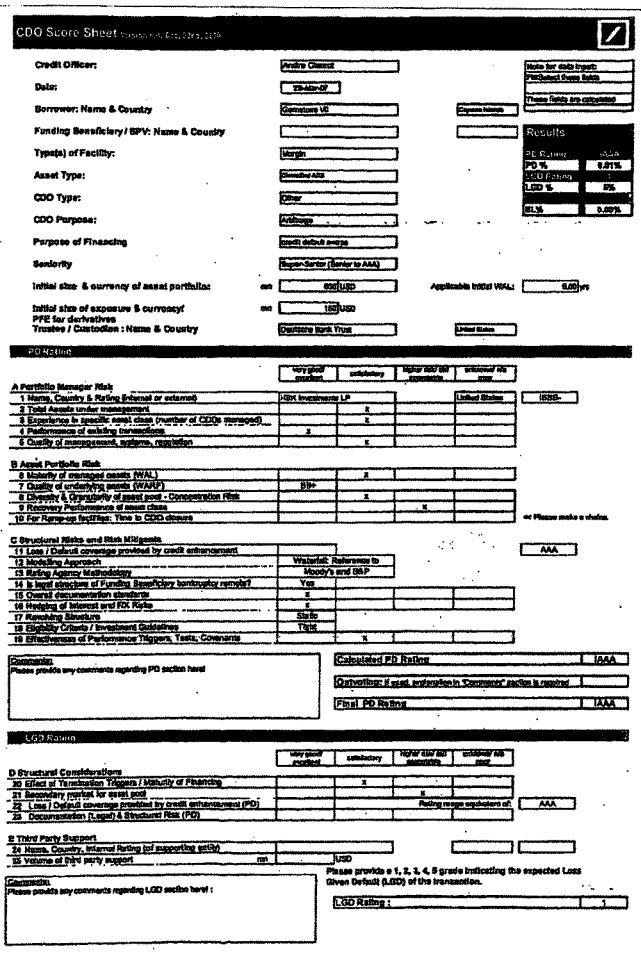

CDO Score Sheet

Credit Officer:	Andre Chenot		
Date:	29-Mar-07		
Borrower: Name & Country	Operations Ltd	Cayman Islands	
Funding Beneficiary / SPV: Name & Country			
Type(s) of Facility:	Margin		
Asset Type:	Diversified ABS		
CDO Type:	Other		
CDO Purpose:	Arbitrage		
Purpose of Financing	credit default swaps		
Seniority	Super-Senior (Senior to AAA)		
Initial size & currency of asset portfolio:	on 600 USD	Applicable Initial WAL:	6.00 yrs
Initial size of exposure & currency of PFE for derivatives	on 180 USD		
Trustee / Custodian : Name & Country	Deutsche Bank Trust	United States	

Results

PD Rating	AAA
PD %	0.01%
LGD Rating	1
LGD %	5%
EL%	0.00%

PD Rating

	very good / excellent	satisfactory	higher risk/ BB/ speculative	substantial risk/ poor	
A Portfolio Manager Risk					
1 Name, Country & Rating (internal or external)	HBK Investments LP			United States	BBB-
2 Total Assets under management		x			
3 Experience in specific asset class (number of CDOs managed)		x			
4 Performance of existing transactions	x				
5 Quality of management, systems, reputation		x			
B Asset Portfolio Risk					
6 Maturity of managed assets (WAL)		x			
7 Quality of underlying assets (WARF)	BB+				
8 Diversity & Granularity of asset pool - Concentration Risk		x			
9 Recovery Performance of asset class			x		
10 For Ramp-up facilities: Time to CDO closure					or Please make a choice.
C Structural Risks and Risk Mitigants					
11 Loss / Default coverage provided by credit enhancement					AAA
12 Modelling Approach	Waterfall: Reference to Moody's and S&P				
13 Rating Agency Methodology					
14 Is bond structure of Funding Beneficiary bankruptcy remote?	Yes				
15 Overall documentation standards	x				
16 Hedging of Interest and FX Risks	x				
17 Revolving Structure	Static				
18 Eligibility Criteria / Investment Guidelines	Tight				
19 Effectiveness of Performance Triggers, Tests, Covenants		x			

Comments:
Please provide any comments regarding PD section here!

Calculated PD Rating	AAA
Optional: If qual. adjustment in "Comments" section is required	
Final PD Rating	AAA

LGD Rating

	very good / excellent	satisfactory	higher risk/ BB/ speculative	substantial risk/ poor	
D Structural Considerations					
20 Effect of Termination Triggers / Maturity of Financing		x			
21 Secondary market for asset pool			x		
22 Loss / Default coverage provided by credit enhancement (PD)					Rating range equivalent of: AAA
23 Documentation (Legal) & Structural Risk (PD)					
E Third Party Support					
24 Name, Country, Internal Rating (of supporting entity)					
25 Volume of third party support	mn	USD			

Please provide a 1, 2, 3, 4, 5 grade indicating the expected Loss Given Default (LGD) of this transaction.

Comments:
Please provide any comments regarding LGD section here!:

LGD Rating :	1

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GEMSTONE CDO VII CDO LTD.
March 15 2007
Page 1

GEMSTONE CDO VII CDO LTD. (the "Issuer")
CLOSING MEMORANDUM

TO:	Brian Guerra	Tel: 212.474.7370	Fax: 212.468.5246
	Bruce Vanmeter	Tel: 212.250.2515	Fax: 212.469.2966
	Jason Lowry	Tel: 212.588.5165	Fax: 212.446.1959
	Eric Martel	Tel: 214.758.6368	Fax: 214.979.8368
	Kevin Jenks	Tel: 212.588.7895	Fax: 212.446.1959
	Marco Lukesch	Tel: 212.588.5112	Fax: 212.446.1959
	Rachel Wish	Tel: 212.588.7889	Fax: 212.446.1959
	Peter Luebke	Tel: 212.250.6099	Fax: 212.468.5246
	Stephen T Hessler	Tel: 714.247.6294	Fax: 714.247.6475
	Susan Anderson	Tel: 714.247.6411	Fax: 714.247.6269
CC:	Richard R Kim	Tel: 212.250.3553	Fax: 732.578.2890
FROM:	Abhayad Kamat	Tel: 212.250.0526	Fax: 732.578.2890
	Sourav Sen	Tel: 212.250.0871	Fax: 732.578.2890
	Che Lu	Tel: 212.250.7801	Fax: 732.578.2890

CLOSING DATE: March 15, 2007

CLOSING LOCATION: Allen & Overy LLP
1221 Avenue of the Americas, 21st Floor
New York, NY 10020
(646) 344-6544 phone

TRANSACTION: Gemstone CDO VII Ltd.
CLIENT: HBK Investments L.P.
COLLATERAL: Structured Product Collateralized Debt Obligation

ISSUE:	$244,000,000	3m LIBOR + 0.21%	Class A-1a Floating Rate Notes
	$400,000,000	3m LIBOR + 0.35%	Class A-1b Floating Rate Notes
	$159,000,000	3m LIBOR + 0.47%	Class A-2 Floating Rate Notes
	$96,900,000	3m LIBOR + 0.68%	Class B Floating Rate Notes
	$68,300,000	3m LIBOR + 2.25%	Class C Floating Rate Deferrable Interest Notes
	$55,100,000	3m LIBOR + 4.75%	Class D Floating Rate Deferrable Interest Notes
	$18,700,000	3m LIBOR + 6.25%	Class E Floating Rate Deferrable Interest Notes
	$59,500,000	N/A	Preference Shares
TOTAL:	$1,101,500,000		

Transaction Closing Memorandum

Deutsche Bank

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1266

DBSI_00133536
DB_PSI_00133536

REG S: Issuer: GEMSTONE CDO VII LTD / GEMSTONE CDO VII CORP

CUSIP	ISIN	Issue Description	Maturity
G37903AA2	USG37903AA26	Class A-1a Floating Rate Notes	12 December 2045
G37903AG9	USG37903AG95	Class A-1b Floating Rate Notes	12 December 2045
G37903AB0	USG37903AB09	Class A-2 Floating Rate Notes	12 December 2045
G37903AC8	USG37903AC81	Class B Floating Rate Notes	12 December 2045
G37903AD6	USG37903AD64	Class C Floating Rate Deferrable Interest Notes	12 December 2045
G37903AE4	USG37903AE48	Class D Floating Rate Deferrable Interest Notes	12 December 2045
G37903AF1	USG37903AF13	Class E Floating Rate Deferrable Interest Notes	12 December 2045

144A: Issuer: GEMSTONE CDO VII LTD / GEMSTONE CDO VII CORP

CUSIP	ISIN	Issue Description	Maturity
36868VAA4	US36868VAA44	Class A-1a Floating Rate Notes	12 December 2045
36868VAG1	US36868VAG14	Class A-1b Floating Rate Notes	12 December 2045
36868VAB2	US36868VAB27	Class A-2 Floating Rate Notes	12 December 2045
36868VAC0	US36868VAC00	Class B Floating Rate Notes	12 December 2045
36868VAD8	US36868VAD82	Class C Floating Rate Deferrable Interest Notes	12 December 2045
36868VAE6	US36868VAE65	Class D Floating Rate Deferrable Interest Notes	12 December 2045
36868VAF3	US36868VAF31	Class E Floating Rate Deferrable Interest Notes	12 December 2045

SOURCES OF FUNDS

Calculation of Issuance Proceeds

	Notional Amount	Issuance Price	Issuance Proceeds
Class A-1a	$244,000,000	100.0000000%	$244,000,000
Class A-1b	$400,000,000	100.0000000%	$400,000,000
Class A-2	$159,000,000	100.0000000%	$159,000,000
Class B	$96,900,000	100.0000000%	$96,900,000
Class C	$68,300,000	100.0000000%	$68,300,000
Class D	$55,100,000	100.0000000%	$55,100,000
Class E	$18,700,000	100.0000000%	$18,700,000
Preference Shares	$59,500,000	53.0617068%	$31,571,716
TOTAL:	$1,101,500,000		$1,073,571,716

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DETAIL OF WIRE REMITTANCES ON CLOSING DATE

I. Detail of Wire initiated by HBK

HBK Wire 1: to Trustee
- **Purchase of the Pref Shares**

Pref Shares Price	$ 31,571,715.55
minus Warehouse Carry and Hedge Gains	$ (6,402,985.19)
Total	$ 25,168,730.36

Wire Sender: HBK Master Fund LP
Payable to: Deutsche Bank Securities Inc.
In the Amount of: **$25,168,730.36** .....(A)

Wire Instructions: Deutsche Bank Trust Co America
ABA# [redacted]
Bene Name: NYLTD Funds Control – Stars West
Bene Acct # [redacted]
Ref: GEMSTONE VII CDO [redacted]
Attn: Susan Anderson

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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Note Proceeds to DB

Note Par	$1,042,000,000.00
MINUS: Discount	$ (3,390,856.80)
MINUS: DB underwriting fee	$ (4,792,792.70)
	$ 1,033,816,350.50

II. Detail of Wires initiated by Deutsche Bank Securities Inc.

DBSI Wire 1: to DBAG Cayman

- **To pay off net outstanding warehouse loan and unpaid interest:**

Wire Sender: Deutsche Bank Securities Inc.
Payable to: Deutsche Bank AG Cayman Islands Branch
In the Amount of: **$432,763,967.21**

Wire Instructions: Deutsche Bank Trust Company Americas, NY
ABA# [redacted]
Acct Name: FFC DB Loan Operations
Acct # [redacted]
Acct Name: Gemstone CDO VII

[redacted] = Redacted by the Permanent Subcommittee on Investigations

DBSI Wire 2: to Trustee

- **Remaining Portion of Proceeds from Sale of Notes MINUS outstanding warehouse loan and unpaid interest**

Wire Sender: Deutsche Bank Securities Inc.
Payable to: GEMSTONE CDO VII CDO LTD.
In the Amount of: **$ 601,052,383.29** .....(B)

Wire Instructions: Deutsche Bank Trust Co America
ABA# [redacted]
Bene Name: NYLTD Funds Control – Stars West
Bene Acct # [redacted]
Ref: GEMSTONE VII CDO [redacted]
Attn: Susan Anderson

CDO CLOSING CAN BE COMPLETED AFTER REMITTANCE OF ABOVE WIRES

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Trustee Details

Cash Account with CDO Trustee $19,143,328.79 .....(C)

Total Amount Received by the Trustee

Wire from HBK (A)	$25,168,730.36
Wire from DBSI (B)	$ 601,052,383.29
Cash Account with CDO Trustee (C)	$19,143,328.79
Total Amount Available with Trustee	**$645,364,442.44**

Transfers initiated by Trustee

Deposit to Synthetic Security Collateral Account (please wire to GE Funding Capital Market)	$614,827,780.20
Deposit to Uninvested Proceeds and Expense Account	$30,536,662.24

Deposit to Uninvested Proceeds and Expense Account	Details
Expense Account	$1,856,662.24
Uninvested Proceeds for settling trades	$28,680,000.00

Trustee Wire: to GE Funding Capital Market

- **Initial Deposit of $614,827,780.20 to the Initial Investment Agreement (GIC)**

Wire Sender: Deutsche Bank Trust Co America
Payable to: GE Funding Capital Market
In the Amount of: **$614,827,780.20**

Wire Instructions: TO: Deutsche Bank Trust Company Americas
New York, New York
ABA NUMBER: [redacted]
FOR GE CAPITAL CORP.
ACCOUNT NUMBER: [redacted]
REFERENCE: GE FUNDING CMS [redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Note:
At Closing, the Aggregate Principal Balance of all Pledged Collateral Debt Securities *plus* the cash in the Synthetic Security Collateral Account should be equal to at least $1,100,000,000.

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Approved by:
Name: Richard Kim
Director
Deutsche Bank Securities Inc.

Approved by:
Name: Abhayed Kamat
Vice President
Deutsche Bank Securities Inc.

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ABS CDOs Issued by DBSI (between 2004 and 2008)

Deal Name	Deutsche Bank Role	Closing Date	Other Parties to the Transaction, (Roles)	Other Parties to the Transaction (Names)	(d) Deutsche Bank In-House Due Diligence	(e) Third Parties Retained to Perform Due Diligence (Roles)	(e) Third Parties Retained to Perform Due Diligence (Names)	(f) Principal Balance of CDO Bonds Issued
Acacia 4 CDO	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Interest Rate Derivative Counterparty	4/6/2004	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	Redacted Wells Fargo Bank, National Association Walkers SPV Limited The Corporation Trust Company n/a Moody's Standard and Poor's SEE US: Freshfields Bruckhaus Deringer LLP LLP, Cayman: Walkers Freshfields Bruckhaus Deringer LLP US Fed. Tax: Chapman and Cutler; US: Tobin & Tobin Hunton & Williams to be Identified	-- Credit Approval for Warehouse -- Warehouse Approval/Veto Rights Held by Trading Desk	Assistants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y to be Identified Moody's Standard and Poor's	310,000,000
Acacia 6 CDO	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Interest Rate Derivative Counterparty	11/8/2004	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	Redacted Wells Fargo Bank, National Association Walkers SPV Limited Corporation Service Company n/a Standard and Poor's SEE US: Freshfields Bruckhaus Deringer LLP LLP, Cayman: Walkers Freshfields Bruckhaus Deringer LLP US Fed. Tax: Chapman and Cutler; U.S. Tobin & Tobin Hunton & Williams to be Identified	-- Credit Approval for Warehouse -- Warehouse Approval/Veto Rights Held by Trading Desk	Assistants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y to be Identified Standard and Poor's	300,000,000

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1267

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ABS CDOs Issued by DBSI (between 2004 and 2008)

Deal Name	Deutsche Bank Role	Closing Date	Other Parties to the Transaction (Roles)	Other Parties to the Transaction (Names)	(d) Deutsche Bank In-House Due Diligence	(e) Third Parties Retained to Perform Due Diligence (Roles)	(f) Third Parties Retained to Perform Due Diligence (Names)	(f) Principal Balance of CDO Bonds Issued
Acacia 7 CDO	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Interest Rate Derivative Counterparty	3/10/2005	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	Redwood Wells Fargo Bank, National Association Walkers SPV Limited Corporation Service Company n/a Moody's Standard and Poor's E&Y US: Freshfields Bruckhaus Deringer LLP; Cayman: Walkers Freshfields Bruckhaus Deringer LLP US Fed. Tax: Chapman and Cutler, US: Tobin & Tobin Kennedy Covington to be identified	-- Credit Approval for Warehouse -- Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies.	E&Y to be identified Moody's Standard and Poor's	300,000,000
Bernanundi CDO I	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Credit Default Swap Counterparty Asset Swap Counterparty Senior Loan Provider	12/12/2006	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	CBASS The Bank of New York Maples Finance Limited n/a Deutsche Bank AG, London Moody's Standard and Poor's Deloitte & Touche US: Hunton & Williams, Cayman: Maples and Calder Skadden, Arps, Slate, Meagher & Flom Hunton & Williams Locke Liddell & Sapp Hunton & Williams	-- Credit Approval for Warehouse -- Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	Deloitte & Touche Hunton & Williams Moody's Standard and Poor's	800,000,000
Blue Edge ABS CDO	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Senior Loan Provider Trustee	12/7/2006	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel	Principal Capital Global Investors Deutsche Bank Trust Company Maples Finance Limited Donald J. Puglisi (State ID: 5107952) n/a Moody's Standard and Poor's E&Y US: Cadwalader Wickersham & Taft, Cayman: Maples & Calder Cadwalader Wickersham & Taft	-- Credit Approval for Warehouse -- Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y Cadwalader Wickersham & Taft Moody's Standard and Poor's	1,264,000,000

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ABS CDOs Issued by DBSI (between 2004 and 2008)

Deal Name	Deutsche Bank Role	Closing Date	Other Parties to the Transaction (Roles)	Other Parties to the Transaction (Names)	(d) Deutsche Bank In-House Due Diligence	(e) Third Parties Retained to Perform Due Diligence (Roles)	(e) Third Parties Retained to Perform Due Diligence (Names)	(f) Principal Balance of CDO Bonds Issued
			Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	Mayer Brown Rowe & Maw Seward & Kissel Cadwalader Wickersham & Taft				
Bluegrass ABS CDO II	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Cayman SPV Administrator	4/14/2004	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	Invesco Wells Fargo Bank, National Association Deutsche Bank (Cayman) CT Corporation n/a Moody's Standard and Poor's E&Y US: Orrick Herrington & Sutcliffe. Cayman: Walkers Orrick Herrington & Sutcliffe Clifford Chance US Kennedy Covington Orrick Herrington & Sutcliffe	-- Credit Approval for Warehouse -- Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y Orrick Herrington & Sutcliffe Moody's Standard and Poor's	400,000,000
Carina CDO	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Credit Default Swap Counterparty Interest Rate Derivative. Counterparty Senior Loan Provider Cayman SPV Administrator Delaware SPV Administrator	11/1/2006	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies. Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	State Street Global Advisors The Bank of New York Deutsche Bank (Cayman) Deutsche International Corporate Services (Delaware) FSA Capital Management Services Moody's Standard and Poor's E&Y US: Allen & Overy, Cayman: Turner & Roulstone Allen & Overy Goodwin Procter Sanders Wynne Sowell Allen & Overy	-- Credit Approval for Warehouse -- Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y Allen & Overy Moody's Standard and Poor's	1,500,000,000
CBASS CBO XIII	Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal)	3/17/2005	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants	CBASS JP Morgan Chase Bank Maples Finance Limited The Corporation Trust Company n/a Standard and Poor's Deloitte & Touche		Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	Deloitte & Touche Hunton & Williams Standard and Poor's	493,250,000

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ABS CDOs Issued by DBSI (between 2004 and 2008)

Deal Name	Deutsche Bank Role	Closing Date	Other Parties to the Transaction (Roles)	Other Parties to the Transaction (Names)	(d) Deutsche Bank In-House Due Diligence	(e) Third Parties Assumed to Perform Due Diligence (Roles)	(e) Third Parties Assumed to Perform Due Diligence (Names)	(f) Principal Balance of CDO Bonds Issued
			Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	US: Hunton & Williams, Cayman: Maples and Calder Schulte Roth & Zabel Cadwalader, Wickersham and Taft Locke Liddell & Sapp Hunton & Williams				
Commodore CDO IV	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Credit Default Swap Counterparty Senior Loan Provider Cayman SPV Administrator	8/19/2005	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	Fischer Francis Investors Bank & Trust Company Deutsche Bank (Cayman) CT Corporation n/a Moody's Standard and Poor's PWC US: Orrick Herrington & Sutcliffe, Cayman: Maitland Orrick Herrington & Sutcliffe Dechert Nixon Peabody Orrick Herrington & Sutcliffe	-- Credit Approval for Warehouse Warehouse Approval/Veto Rights Held by Trading Desk	Assessments (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	PWC Orrick Herrington & Sutcliffe Moody's Standard and Poor's	400,000,000
Dalton CDO	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Credit Default Swap Counterparty Senior Loan Provider	9/28/2007	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	Dynamic Credit Partners Wilmington Trust Company Walkers SPV Limited Puglisi & Associates Rabobank Moody's Standard and Poor's Deloitte & Touche US: Allen & Overy, Cayman: Walkers Allen & Overy Orrick Herrington & Sutcliffe n/a Orrick Herrington & Sutcliffe	-- Credit Approval for Warehouse Warehouse Approval/Veto Rights Held by Trading Desk	Assessments (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	Deloitte & Touche Orrick Herrington & Sutcliffe Moody's Standard and Poor's	400,000,000

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ABS CDOs Issued by DBSI (between 2004 and 2008)

Deal Name	Deutsche Bank Role	Closing Date	Other Parties to the Transaction (Roles)	Other Parties to the Transaction (Names)	(d) Deutsche Bank In-House Due Diligence	(e) Third Parties Retained to Perform Due Diligence (Roles)	(e) Third Parties Retained to Perform Due Diligence (Names)	(f) Principal Balance of CDO Bonds Issued
Delta II	Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Credit Default Swap Counterparty Interest Rate Derivative Counterparty Asset Swap Counterparty Trustee	7/15/2005	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	Whitelaw Deutsche Trustee Company Limited Deutsche International Corporate Services (Ireland) Limited n/a n/a Moody's Standard and Poor's Irish Law: Matheson Ormsby Prentice England: Ashurst, US: McKee Nelson Specialty Bircham Ashurst to be identified		Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	 to be identified Moody's Standard and Poor's	153,000,000
Diogenes CDO I	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Credit Default Swap Counterparty Interest Rate Derivative Counterparty Asset Swap Counterparty Senior Loan Provider Delaware SPV Administrator	11/4/2005	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	State Street Global Advisors JP Morgan Chase Bank Maples Finance Limited Deutsche International Corporate Services (Delaware) XL Asset Funding Company Moody's Standard and Poor's E&Y US: Orrick Herrington & Sutcliffe, Cayman: Maples and Calder Orrick Herrington & Sutcliffe Goodwin Procter Gardere Wynne Sewell Orrick Herrington & Sutcliffe	– Credit Approval for Warehouse – Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y Orrick Herrington & Sutcliffe Moody's Standard and Poor's	400,000,000
Diogenes CDO II	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Credit Default Swap Counterparty Interest Rate Derivative Counterparty Asset Swap Counterparty Senior Loan Provider	5/29/2006	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel	State Street Global Advisors JP Morgan Chase Bank Maples Finance Limited Deutsche International Corporate Services (Delaware) Rabobank Moody's Standard and Poor's E&Y US: Allen & Overy; Cayman: Maples and Calder	– Credit Approval for Warehouse – Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y Allen & Overy Moody's Standard and Poor's	600,000,000

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ABS CDOs Issued by DBSI (between 2004 and 2008)

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Deal Name	Deutsche Bank Role	Closing Date	Other Parties to the Transaction (Roles)	Other Parties to the Transaction (Names)	(d) Deutsche Bank In-House Due Diligence	(e) Third Parties retained to Perform Due Diligence (Roles)	(e) Third Parties retained to Perform Due Diligence (Names)	(f) Principal Balance of CDO Bonds Issued
	Delaware SPV Administrator		Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	Allen & Overy Goodwin Procter Gardere Wynne Sewell Allen & Overy				
Diogenes III	Warehouse Lender Underwriter / Placement Agent / Structuring Agent; Trading Counterparty (selling assets to the deal) Credit Default Swap Counterparty Senior Loan Provider	5/3/2007	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	State Street Global Advisors The Bank of New York Maples Finance Limited Pugilist & Associates Rabobank Moody's Standard and Poor's E&Y US: Allen & Overy, Cayman: Maples and Calder Allen & Overy Goodwin Procter Gardere Wynne Sewell Allen & Overy	-- Credit Approval for Warehouse -- Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y Allen & Overy Moody's Standard and Poor's	806,000,000
Dutch Hill Funding I	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Credit Default Swap Counterparty Asset Swap Counterparty Cayman SPV Administrator	12/22/2005	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	TCW JP Morgan Chase Bank Deutsche Bank (Cayman) Donald J. Puglisi (State ID: 4063035, @ Corporation Trust Center) n/a Moody's Standard and Poor's Deloitte & Touche US: Linklaters, Cayman: Walkers Orrick, Herrington & Sutcliffe Linklaters Gardere Wynne Sewell to be identified	-- Credit Approval for Warehouse -- Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	Deloitte & Touche to be identified Moody's Standard and Poor's	400,000,000
Dutch Hill Funding II	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Credit Default Swap Counterparty	6/2/2007	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants	TCW LaSalle Bank National Association Deutsche Bank (Cayman) Donald J. Puglisi (State ID: 4336910, @ Corporation Trust Center) n/a Moody's Standard and Poor's E&Y	-- Credit Approval for Warehouse -- Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y Linklaters Moody's Standard and Poor's	399,000,000

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ABS CDOs Issued by DBSI (between 2004 and 2008).

Deal Name	Deutsche Bank Role	Closing Date	Other Parties to the Transaction (Roles)	Other Parties to the Transaction (Names)	(d) Deutsche Bank In-House Due Diligence	(e) Third Parties Retained to Perform Due Diligence (Roles)	(e) Third Parties Retained to Perform Due Diligence (Names)	(f) Principal Balance of CDO Bonds Issued
	Cayman SPV Administrator		Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	US: Linklaters, Cayman: Walkers Allen & Overy Linklaters Kennedy Covington Linklaters				
G Square Finance 2006-2	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Senior Loan Provider	11/30/2006	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	Wharton Asset Management HSBC Trustee Walkers SPV Limited n/a n/a Moody's Standard and Poor's n/a Cayman: Walkers England: Ashurst, US: McKee Nelson Speechly Bircham Ashurst Ashurst	-- Credit Approval for Warehouse -- Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	n/a Ashurst Moody's Standard and Poor's	1,014,000,000
Gemstone CDO II	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Interest Rate Derivative Counterparty Trustee Cayman SPV Administrator	5/3/2005	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	HBK Investments LP Deutsche Bank Trust Company Deutsche Bank (Cayman) The Corporation Trust Company n/a Moody's Standard and Poor's E&Y US: Orrick Herrington & Sutcliffe, Cayman: Maples and Calder Orrick Herrington & Sutcliffe Cadwalader Wickersham & Taft Seward & Kissel Orrick Herrington & Sutcliffe	-- Credit Approval for Warehouse -- Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y Orrick Herrington & Sutcliffe Moody's Standard and Poor's	400,000,000
Gemstone CDO IV	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Credit Default Swap Counterparty Interest Rate Derivative Counterparty	1/20/2006	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies	HBK Investments LP Deutsche Bank Trust Company Deutsche Bank (Cayman) The Corporation Trust Company, XL Asset Funding Company Moody's Standard and Poor's	-- Credit Approval for Warehouse -- Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y Orrick Herrington & Sutcliffe Moody's Standard and Poor's	800,000,000

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ABS CDOs Issued by DBSI (between 2004 and 2008)

Deal Name	Deutsche Bank Role	Closing Date	Other Parties to the Transaction (Roles)	Other Parties to the Transaction (Names)	(d) Deutsche Bank In-House Due Diligence	(e) Third Parties Retained to Perform Due Diligence (Roles)	(e) Third Parties Retained to Perform Due Diligence (Names)	(f) Principal Balance of CDO Bonds Issued
	Trustee Cayman SPV Administrator		Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	E&Y US: Orrick Herrington & Sutcliffe, Cayman: Maples and Calder Orrick Herrington & Sutcliffe Cadwalader Wickersham & Taft Seward & Kissel Orrick Herrington & Sutcliffe				
Gemstone CDO V	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Credit Default Swap Counterparty Interest Rate Derivative Counterparty Trustee Cayman SPV Administrator	5/18/2006	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	HBK Investments LP Deutsche Bank Trust Company Deutsche Bank (Cayman) The Corporation Trust Company XL Asset Funding Company Moody's Standard and Poor's E&Y US: Allen & Overy, Cayman: Maples and Calder Allen & Overy Cadwalader Wickersham & Taft Seward & Kissel Allen & Overy	– Credit Approval for Warehouse – Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y Allen & Overy Moody's Standard and Poor's	676,000,000
Gemstone CDO VII	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Credit Default Swap Counterparty Trustee Cayman SPV Administrator	3/15/2007	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	HBK Investments LP Deutsche Bank Trust Company Deutsche Bank (Cayman) Donald J. Puglisi (State ID: 070220501) General Electric Capital Corporation Moody's Standard and Poor's E&Y US: Allen & Overy, Cayman: Maples and Calder Allen & Overy Cadwalader Wickersham & Taft Seward & Kissel to be identified	– Credit Approval for Warehouse – Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y to be identified Moody's Standard and Poor's	1,101,500,000
GMAC-RFC ABS CDO	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal)	6/30/2004	Collateral Manager Trustee Cayman SPV Administrator	GMAC-RFC Wells Fargo Bank, National Association Maples Fiduca Limited	– Credit Approval for Warehouse – Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	Deloitte & Touche Orrick Herrington & Sutcliffe Standard and Poor's	300,000,000

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ABS CDOs Issued by DBSI (between 2004 and 2008)

Deal Name	Deutsche Bank Role	Closing Date	Other Parties to the Transaction (Roles)	Other Parties to the Transaction (Names)	(d) Deutsche Bank In-House Due Diligence	(e) Third-Party Investor Retained to Perform Due Diligence (Roles)	(e) Third-Party Investor Retained to Perform Due Diligence (Names)	(f) Principal Balance of CDO Bonds Issued
	Interest Rate Derivative Counterparty		Delaware SPV Administrator GIC Provider/ Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	The Corporation Trust Company Intl. Standard and Poor's Deloitte & Touche US: Orrick Herrington & Sutcliffe. Cayman: Maples and Calder Sidley Austin LLP & Mourant Ozannes Hedman Mayor Orrick Herrington & Sutcliffe Kennedy Covington Orrick Herrington & Sutcliffe				
Halcyon Securitized Products	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Credit Default Swap Counterparty Asset Swap Counterparty Senior Loan Provider Cayman SPV Administrator	10/19/2006	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	Halcyon Securitized Products Investors LP The Bank of New York Deutsche Bank (Cayman) The Corporation Trust Company Intl. Moody's Standard and Poor's Deloitte & Touche US: Skadden Arps Slate Meagher & Flom; Cayman: Maples and Calder Skadden Arps Slate Meagher & Flom Seward & Kissel Gardere Wynne Sewell Skadden Arps Slate Meagher & Flom	– Credit Approval for Warehouse – Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	Deloitte & Touche Skadden Arps Slate Meagher & Flom Moody's Standard and Poor's	400,000,000
Halcyon Securitized Products	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Credit Default Swap Counterparty Senior Loan Provider Cayman SPV Administrator	5/17/2007	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	Halcyon Securitized Products Investors LP The Bank of New York Deutsche Bank (Cayman) The Corporation Trust Company FSA Capital Management Services Moody's Standard and Poor's E&Y US: Skadden Arps Slate Meagher & Flom; Cayman: Maples & Ruderman Skadden Arps Slate Meagher & Flom Seward & Kissel Gardere Wynne Sewell Skadden Arps Slate Meagher & Flom	– Credit Approval for Warehouse – Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y Skadden Arps Slate Meagher & Flom Moody's Standard and Poor's	800,000,000

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ABS CDOs Issued by DBSI (between 2004 and 2008)

Deal Name	Deutsche Bank Role	Closing Date	Other Parties to the Transaction (Roles)	Other Parties to the Transaction (Names)	(d) Deutsche Bank In-House Due Diligence	(e) Third Parties Retained to Perform Due Diligence (Roles)	(f) Third Parties Retained to Perform Due Diligence (Names)	(f) Principal Balance of CDO Bonds Issued
Hamilton Gardens	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Credit Default Swap Counterparty Interest Rate Derivative Counterparty Senior Loan Provider Delaware SPV Administrator	9/21/2006	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	Rabobank International JP Morgan Chase Bank Maples Finance Limited Deutsche International Corporate Services (Delaware) Rabobank Moody's Standard and Poor's E&Y US: Allen & Overy, Cayman: Maples and Calder Allen & Overy Schulte Roth & Zabel Gardere Wynne Sewell Schulte Roth & Zabel	-- Credit Approval for Warehouse -- Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y Schulte Roth & Zabel Moody's Standard and Poor's	500,000,000
Hamilton Gardens II	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Credit Default Swap Counterparty Senior Loan Provider	6/15/2007	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	Rabobank The Bank of New York Maples Finance Limited Puglisi & Associates Rabobank Moody's Standard and Poor's E&Y US: Allen & Overy, Cayman: Maples and Calder Allen & Overy Schulte Roth & Zabel Gardere Wynne Sewell Schulte Roth & Zabel	-- Credit Approval for Warehouse -- Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y Schulte Roth & Zabel Moody's Standard and Poor's	400,000,000
Held 2006-1*	Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Credit Default Swap Counterparty Asset Swap Counterparty Trustee	10/19/2006	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel	Static Deutsche Trustee Company Limited Deutsche International Corporate Services (Ireland) Limited n/a n/a Moody's Standard and Poor's Irish Law: Matheson Ormsby Prentice Linklaters n/a Linklaters		Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	to be identified Moody's Standard and Poor's	2,200,000,000

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ABS CDOs Issued by DBSI (between 2004 and 2006)

Deal Name	Deutsche Bank Role	Closing Date	Other Parties to the Transaction (Roles)	Other Parties to the Transaction (Names)	(c) Deutsche Bank In-House Due Diligence	(e) Third-Parties Retained to Perform Due Diligence (Roles)	(e) Third-Parties Retained to Perform Due Diligence (Names)	(f) Principal Balance of CDO Bonds Issued
			Counsel Providing 10b-5 Opinion	to be identified				

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ABS CDOs Issued by DBSI (between 2004 and 2008)

Deal Name	Deutsche Bank Role	Closing Date	Other Parties to the Transaction (Roles)	Other Parties to the Transaction (Names)	(d) Deutsche Bank In-House Due Diligence	(e) Third Parties Retained to Perform Due Diligence (Roles)	(e) Third Parties Retained to Perform Due Diligence (Names)	(f) Principal Balance of CDO Bonds Issued
Los Robles	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal). Credit Default Swap Counterparty Interest Rate Derivative Counterparty Trustee Cayman SPV Administrator	8/10/2007	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel, Trustee Counsel Counsel Providing 10b-5 Opinion	Western Asset Deutsche Bank Trust Company Deutsche Bank (Cayman) Donald J. Puglisi (State ID: 4399801) Rabobank Moody's Standard and Poor's E&Y US: McKee Nelson, Cayman: Turner & Roulstone McKee Nelson Ropes & Gray Seward & Kissel to be identified	-- Credit Approval for Warehouse -- Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y to be identified Moody's Standard and Poor's	750,000,000
Matrix 2007-1**		1/22/2007	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	Faxtor Securities	-- Credit Approval for Warehouse -- Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies		1,000,000,000
Mount Skylight	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal); Senior Loan Provider Trustee Cayman SPV Administrator Delaware SPV Administrator	5/24/2006	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	TIAA Deutsche Bank Trust Company Deutsche Bank (Cayman) Deutsche International Corporate Services (Delaware) n/a Moody's Standard and Poor's E&Y US: Allen & Overy, Cayman: Walkers Allen & Overy Mayer Brown Rowe & Maw Seward & Kissel Allen & Overy	-- Credit Approval for Warehouse -- Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y Allen & Overy Moody's Standard and Poor's	1,000,000,000

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ABS CDOs Issued by DBSI (between 2004 and 2008)

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Deal Name	Deutsche Bank Role	Closing Date	Other Parties to the Transaction (Roles)	Other Parties to the Transaction (Names)	(d) Deutsche Bank In-House Due Diligence	(e) Third Parties Retained to Perform Due Diligence (Roles)	(e) Third Parties Retained to Perform Due Diligence (Names)	(f) Principal Balance of CDO Bonds Issued
Palisades CDO	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Cayman SPV Administrator	7/15/2004	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	Western Asset Wells Fargo Bank, National Association Deutsche Bank (Cayman) CT Corporation n/a Moody's Standard and Poor's PWC US: Orrick Herrington & Sutcliffe, Cayman: Walkers Orrick Herrington & Sutcliffe Ropes & Gray Kennedy Covington to be identified	-- Credit Approval for Warehouse -- Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	PWC to be identified Moody's Standard and Poor's	600,000,000
Pine Mountain CDO I	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Credit Default Swap Counterparty Interest Rate Derivative Counterparty Senior Loan Provider Trustee Cayman SPV Administrator	11/8/2005	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	Smith Breeden Associates Deutsche Bank Trust Company Deutsche Bank (Cayman) CT Corporation FSA Capital Management Services Moody's Standard and Poor's PWC US: Orrick Herrington & Sutcliffe, Cayman: Maples and Calder Orrick, Herrington & Sutcliffe Paul Weiss Rifkind Wharton & Garrison Seward & Kissel Paul Weiss Rifkind Wharton & Garrison	-- Credit Approval for Warehouse -- Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	PWC Paul Weiss Rifkind Wharton & Garrison Moody's Standard and Poor's	400,000,000
Pine Mountain CDO II	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Credit Default Swap Counterparty Senior Loan Provider Trustee	11/16/2006	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel	Smith Breeden Associates Deutsche Bank Trust Company Deutsche Bank (Cayman) Donald J. Puglisi (State ID: 4237556) FSA Capital Management Services Moody's Standard and Poor's PWC US: McKee Nelson, Cayman: Maples and Calder	-- Credit Approval for Warehouse -- Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	PWC Paul Weiss Rifkind Wharton & Garrison Moody's Standard and Poor's	502,500,000

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ABS CDOs Issued by DBSI (between 2004 and 2008)

Deal Name	Deutsche Bank Role	Closing Date	Other Parties to the Transaction (Roles)	Other Parties to the Transaction (Names)	(d) Deutsche Bank In-House Due Diligence	(e) Third Parties Retained to Perform Due Diligence (Roles)	(e) Third Parties Retained to Perform Due Diligence (Names)	(f) Principal Balance of CDO Bonds Issued
	Cayman SPV Administrator		Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	McKee Nelson Paul Weiss Rifkind Wharton & Garrison Seward & Kissel Paul Weiss Rifkind Wharton & Garrison				
Pine Mountain CDO III	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Credit Default Swap Counterparty Senior Loan Provider Trustee Cayman SPV Administrator	7/11/2007	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	Smith Breeden Associates Deutsche Bank Trust Company Deutsche Bank (Cayman) Donald J. Puglisi (State ID: 4389585) FSA Capital Management Services Moody's Standard and Poor's PWC US: McKee Nelson, Cayman: Maples and Calder McKee Nelson Paul Weiss Rifkind Wharton & Garrison Seward & Kissel Paul Weiss Rifkind Wharton & Garrison	-- Credit Approval for Warehouse -- Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	PWC Paul Weiss Rifkind Wharton & Garrison Moody's Standard and Poor's	500,000,000
Sandstone CDO	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Interest Rate Derivative Counterparty Senior Loan Provider Trustee Cayman SPV Administrator	6/4/2004	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	HBK Investments LP Deutsche Bank Trust Company Deutsche Bank (Cayman) The Corporation Trust Company n/a Moody's Standard and Poor's E&Y US: Orrick Herrington & Sutcliffe, Cayman: Maples and Calder Orrick Herrington & Sutcliffe Cadwalader Wickersham & Taft Seward & Kissel Orrick Herrington & Sutcliffe	-- Credit Approval for Warehouse -- Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y Orrick Herrington & Sutcliffe Moody's Standard and Poor's	307,400,000
Sharps CDO I	Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal)	12/15/2006	Collateral Manager Trustee Cayman SPV Administrator	Static. Deutsche Bank Trust Company Maples Finance Limited		Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y McKee Nelson Standard and Poor's	350,000,000

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ABS CDOs Issued by DBSI (between 2004 and 2008)

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Deal Name	Deutsche Bank Role	Closing Date	Other Parties to the Transaction (Roles)	Other Parties to the Transaction (Names)	(d) Deutsche Bank In-House Due Diligence	(e) Third Parties Retained to Perform Due Diligence (Roles)	(e) Third Parties Retained to Perform Due Diligence (Names)	(f) Principal Balance of CDO Bonds Issued
	Trustee		Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	The Corporation Trust Company n/a Standard and Poor's E&Y US: McKee Nelson, Cayman: Maples and Calder McKee Nelson n/a Seward & Kissel McKee Nelson				
Sharpe CDO-II	Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Credit Default Swap Counterparty	9/28/2007	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	Static The Bank of New York Maples Finance Limited The Corporation Trust Company FSA Capital Management Services Moody's Standard and Poor's E&Y US: McKee Nelson, Cayman: Maples and Calder McKee Nelson n/a Dorsey & Whitney McKee Nelson	-- Credit Approval for Warehouse -- Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y McKee Nelson Moody's Standard and Poor's	1,000,000,000
STACK 2005-1	Underwriter / Placement Agent / Structuring Agent Credit Default Swap Counterparty Asset Swap Counterparty Trustee	3/24/2005	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	TCW Deutsche Trustee Company Limited Maples Finance Limited n/a n/a Standard and Poor's E&Y US: Linklaters, Cayman: Maples and Calder, English Law: Linklaters Linklaters Linklaters Linklaters Linklaters		Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y Linklaters Standard and Poor's	1,000,000,000
Static Residential 2005-A	Underwriter / Placement Agent / Structuring Agent Credit Default Swap Counterparty	6/28/2005	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator	Static LaSalle Bank National Association Deutsche Bank (Cayman) Donald J. Puglisi		Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y McKee Nelson Moody's Standard and Poor's	1,000,000,000

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ABS CDOs Issued by DBSI (between 2004 and 2008)

Deal Name	Deutsche Bank Role	Closing Date	Other Parties to the Transaction (Roles)	Other Parties to the Transaction (Names)	(d) Deutsche Bank In-House Due Diligence	(e) Third Parties Retained to Perform Due Diligence (Roles)	(e) Third Parties Retained to Perform Due Diligence (Names)	(f) Principal Balance of CDO Bonds Issued
	Asset Swap Counterparty Senior Loan Provider		GIC Provider Rating Agencies Accountants	n/a Moody's Standard and Poor's E&Y				
	Cayman SPV Administrator		Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	US: McKee Nelson, Cayman: Walkers McKee Nelson n/a Kaye Scholer McKee Nelson				
Static Residential 2005-B	Underwriter / Placement Agent / Structuring Agent Credit Default Swap Counterparty Senior Loan Provider Cayman SPV Administrator	10/27/2005	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	Static LaSalle Bank National Association Deutsche Bank (Cayman) Donald J. Puglisi FSA Capital Management Services Moody's Standard and Poor's. E&Y US: McKee Nelson, Cayman: Walkers McKee Nelson n/a Kaye Scholer McKee Nelson		Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y McKee Nelson Moody's Standard and Poor's	1,000,000,000
Static Residential 2005-C	Underwriter / Placement Agent / Structuring Agent Credit Default Swap Counterparty Senior Loan Provider Cayman SPV Administrator	1/20/2006	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	Static LaSalle Bank National Association Deutsche Bank (Cayman) Donald J. Puglisi FSA Capital Management Services Moody's Standard and Poor's. E&Y US: McKee Nelson, Cayman: Walkers McKee Nelson n/a Kaye Scholer McKee Nelson		Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y McKee Nelson Moody's Standard and Poor's	500,000,000
Static Residential 2006-A	Underwriter / Placement Agent / Structuring Agent Credit Default Swap Counterparty	4/12/2006	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies	Static LaSalle Bank National Association Deutsche Bank (Cayman) Puglisi & Associates FSA Capital Management Services Moody's Standard and Poor's		Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y McKee Nelson Moody's Standard and Poor's	1,000,000,000

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ABS CDOs Issued by DBSI (between 2004 and 2008)

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Deal Name	Deutsche Bank Role	Closing Date	Other Parties to the Transaction (Roles)	Other Parties to the Transaction (Names)	(d) Deutsche Bank In-House Due Diligence	(e) Third Parties Retained to Perform Due Diligence (Roles)	(e) Third Parties Retained to Perform Due Diligence (Names)	(f) Principal Balance of CDO Bonds Issued
	Senior Loan Provider Cayman SPV Administrator		Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	E&Y US: McKee Nelson, Cayman: Walkers McKee Nelson n/a Kaye Scholer McKee Nelson				
Static Residential 2006-B	Underwriter / Placement Agent / Structuring Agent Credit Default Swap Counterparty Senior Loan Provider Cayman SPV Administrator	8/22/2006	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	Static LaSalle Bank National Association Deutsche Bank (Cayman) Puglisi & Associates FSA Capital Management Services, XL Asset Funding Company Moody's Standard and Poor's E&Y US: McKee Nelson, Cayman: Walkers McKee Nelson n/a Kaye Scholer McKee Nelson		Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y McKee Nelson Moody's Standard and Poor's	1,000,000,000
Static Residential 2006-C	Underwriter / Placement Agent / Structuring Agent Credit Default Swap Counterparty Senior Loan Provider Cayman SPV Administrator	12/19/2006	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	Static LaSalle Bank National Association Deutsche Bank (Cayman) Puglisi & Associates Amtiao Moody's Standard and Poor's E&Y US: McKee Nelson, Cayman: Walkers McKee Nelson n/a Kaye Scholer McKee Nelson		Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y McKee Nelson Moody's Standard and Poor's	750,000,000

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ABS CDOs Issued by DBSI (between 2004 and 2008)

Deal Name	Deutsche Bank Role	Closing Date	Other Parties to the Transaction (Roles)	Other Parties to the Transaction (Names)	(d) Deutsche Bank In-House Due Diligence	(e) Third Parties Retained to Perform Due Diligence (Roles)	(e) Third Parties Retained to Perform Due Diligence (Names)	(f) Principal Balance of CDO Bonds Issued
SYRAH 2004-10	Underwriter / Placement Agent / Structuring Agent	1/12/2005	Collateral Manager	Stelic		Accountants (portfolio/modeling comfort letter)	E&Y	500,000,000
			Trustee	Wells Fargo Bank, National Association				
			Cayman SPV Administrator	Walker House		Counsels (10b-5 opinions)	McKee Nelson	
	Credit Default Swap Counterparty			Deutsche International Corporate		Rating Agencies	Standard and Poor's	
	Interest Rate Derivative Counterparty		Delaware SPV Administrator	Services (Delaware)				
	Asset Swap Counterparty		GIC Provider	n/a				
			Rating Agencies	Standard and Poor's				
			Accountants	E&Y				
			Issuer / Co-Issuer Counsel	US: McKee Nelson, Cayman: Walkers				
			Initial Purchaser Counsel	McKee Nelson				
	Delaware SPV Administrator		Collateral Manager Counsel	n/a				
			Trustee Counsel	Nixon Peabody				
			Counsel Providing 10b-5 Opinion	McKee Nelson				
Tourmaline III	Warehouse Lender	4/9/2007	Collateral Manager	BlackRock	-- Credit Approval for Warehouse	Accountants (portfolio/modeling comfort letter)	Deloitte & Touche	1,500,000,000
	Underwriter / Placement Agent / Structuring Agent		Trustee	Wells Fargo Bank, National Association	-- Warehouse Approval/Veto Rights Held by Trading Desk	Counsels (10b-5 opinions)	to be identified	
	Trading Counterparty (selling assets to the deal)		Cayman SPV Administrator	Maples Finance Limited		Rating Agencies	Moody's Standard and Poor's	
	Credit Default Swap Counterparty		Delaware SPV Administrator	The Corporation Trust Company				
	Interest Rate Derivative Counterparty		GIC Provider	Deutsche Bank AG, London				
			Rating Agencies	Moody's Standard and Poor's				
	Senior Loan Provider		Accountants	Deloitte & Touche				
			Issuer / Co-Issuer Counsel	US: Skadden Arps Slate Meagher & Flom; Cayman: Maples & Calder				
			Initial Purchaser Counsel	Allen & Overy				
			Collateral Manager Counsel	Skadden Arps Slate Meagher & Flom				
			Trustee Counsel	Kennedy Covington				
			Counsel Providing 10b-5 Opinion	to be identified				
Zais Investment Grade VIII	Warehouse Lender	3/23/2006	Collateral Manager	Zais Group	-- Credit Approval for Warehouse -- Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter)	Deloitte & Touche	450,000,000
	Underwriter / Placement Agent / Structuring Agent		Trustee	JP Morgan Chase Bank		Counsels (10b-5 opinions)	Skadden Arps Slate Meagher & Flom	
	Trading Counterparty (selling assets to the deal)		Cayman SPV Administrator	Deutsche Bank (Cayman)		Rating Agencies	Moody's Standard and Poor's	
	Credit Default Swap Counterparty		Delaware SPV Administrator	The Corporation Trust Company				
			GIC Provider	n/a				
	Asset Swap Counterparty		Rating Agencies	Moody's Standard and Poor's				
	Senior Loan Provider		Accountants	Deloitte & Touche				
			Issuer / Co-Issuer Counsel	US: Skadden Arps Slate Meagher & Flom, Cayman: Ogier				
	Cayman SPV Administrator		Initial Purchaser Counsel	Skadden Arps Slate Meagher & Flom				
			Collateral Manager Counsel	Seward & Kissel				

66050.078

Footnote Exhibits - Page 0829

ABS CDOs issued by DBSI (between 2004 and 2008)

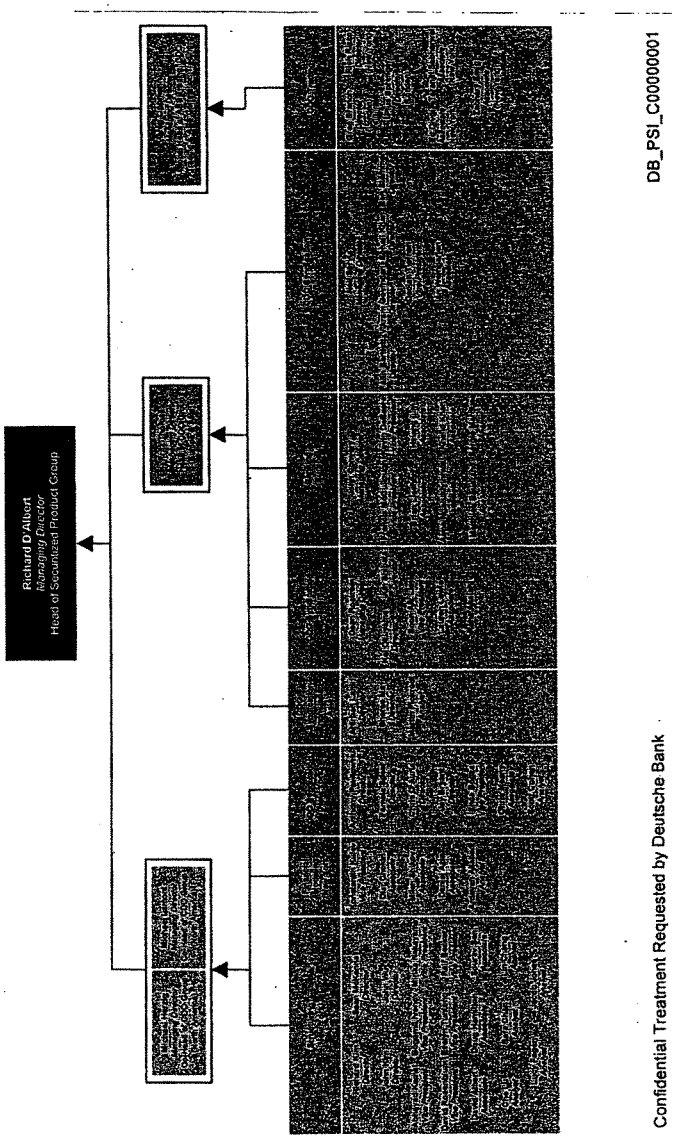
Deal Name	Deutsche Bank Role	Closing Date	Other Parties to the Transaction (Roles)	Other Parties to the Transaction (Names)	(d) Deutsche Bank In-House Due Diligence	(e) Third-Parties Retained to Perform Due Diligence (Roles)	(e) Third-Parties Retained to Perform Due Diligence (Names)	(f) Principal Balance of CDO Bonds Issued
			Trustee Counsel Counsel Providing 10b-5 Opinion	Gardere Wynne Sewell Skadden Arps Slate Meagher & Flom				

VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 00081 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

66050.079

Footnote Exhibits - Page 0830

Deutsche Bank Global CDO Group (as of September 2006)



DB_PSI_C00000001

Confidential Treatment Requested by Deutsche Bank

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1270

Greg Lippmann@DBAMERICAS To: Melissa Goldsmith/NewYork/DBNA/DeuBa@DBAmericas cc: Subject: Re:

07/14/2006 04:06 PM

I run secondary trades for all abs globally so not the structuring and purchasing of raw whole loans. But all trading post securitization in us and europe and all other types of abs-- credit cards autos etc etc. I also run all cdo trading -- abs backed, corporate, hy and emerging market. Also bespoke abs spoke aka "abs correlation". Lastly I am head of risk management for all new issue cdos so am involved in underwriting, structuring , marketing and hedging our wharehouse risk for new issuue cdos. Total reports roughly 15 in us and 10 in london. That enough?

Sent from my BlackBerry Handheld.

Melissa Goldsmith

From: Melissa Goldsmith
Sent: 07/14/2006 03:23 PM
To: Greg Lippmann
Subject: Re:

actually so i can explain who you are properly to him, you are the head of the trading desk of all abs subprime product as well
as secondary cdo's? or how do you describe your job. also, how involved are you in structuring cdo's of subprime:
jordan said you do that on your desk for bespoke pools but it's done on another desk for generic subprime?

sorry to be so annoying but i'd rather describe you accurrately than make something up.

Greg Lippmann/NewYork/DBNA/DeuBa

Greg Lippmann/NewYork/DBNA/DeuBa To Melissa Goldsmith/NewYork/DBNA/DeuBa@DBAmericas cc

07/14/2006 03:18 PM Subject Re:

Sure. Should be in at 7

Sent from my BlackBerry Handheld.

Melissa Goldsmith

From: Melissa Goldsmith
Sent: 07/14/2006 02:55 PM
To: Greg Lippmann
Subject: Re:

no--no worries! i left a voice message for him on his cell and haven't heard back. i'd imagine it's monday's business.....maybe
we can call him very early monday, as he will be in london? let me know what works with you

Greg Lippmann/NewYork/DBNA/DeuBa

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1271

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66050.081

Greg Lippmann/NewYork/DBNA/DeuBa To Melissa Goldsmith/NewYork/DBNA/DeuBa@DBAmericas
cc
07/14/2006 02:53 PM Subject Re:

I remember now, sorry. Bit foggy from the trip. Cell iis 917.601.1916

Sent from my BlackBerry Handheld.

Melissa Goldsmith

From: Melissa Goldsmith
Sent: 07/14/2006 02:42 PM
To: Greg Lippmann
Subject: Re:

he's a senior pm and works closely w/louis bacon.....some of the trades that mansfield's guys executed were from him, others were from other pm's
internally at moore. he's sort of changed roles a bit recently to working more on big picture strategic themes rather than trading more tactically;
and is working with louis a lot more than he used to.....

mansfield covers the execution desk.....

Greg Lippmann/NewYork/DBNA/DeuBa

Greg Lippmann/NewYork/DBNA/DeuBa To Melissa Goldsmith/NewYork/DBNA/DeuBa@DBAmericas
cc
07/14/2006 02:37 PM Subject Re:

Is he the guy who has done the index trade ie mansfields guuys?

Sent from my BlackBerry Handheld.

Melissa Goldsmith

From: Melissa Goldsmith
Sent: 07/14/2006 02:34 PM
To: Greg Lippmann
Subject: Re:

he's from moore.

Greg Lippmann/NewYork/DBNA/DeuBa

Greg Lippmann/NewYork/DBNA/DeuBa To Melissa Goldsmith/NewYork/DBNA/DeuBa@DBAmericas
cc
07/14/2006 02:20 PM Subject Re:

Yes. Where is he from again?

VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 00084 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

66050.082

Sent from my BlackBerry Handheld.

Melissa Goldsmith

From: Melissa Goldsmith
Sent: 07/14/2006 11:39 AM
To: Greg Lippmann

greg: can we jump on a call w/richard monday morning?

VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 00085 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

66050.083



rokurita@bbotg To: greglip@bbotg
cc:
Subject:
02/24/2006
08:33 AM

Message Sent: 02/24/2006 08:33:21
From: ROKURITA@BBOTG|ROCKY KURITA|DEUTSCHE BANK SECURI|1726|328663
To: GREGLIP@BBOTG|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663

gsc =

ACE 2005-HE5 M8 130 128 120 =

CSFB 2004-FRE1 B2 126 PASS !! pass =

HEAT 2005-9 M8 131 130 128 =

LBMLT 2004-3 M8 123 126 (THIS BOND BLOWS)pass(i disagree) =

POPLR 2004-4 B1 pass PASS pass =

Reply: =

Reply: =

OrgSmtpMsg.eml

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1274

VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 00086 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

66050.084

Footnote Exhibits - Page 0835

From: GREG LIPPMANN (DEUTSCHE BANK SECURI) <GREGLIP@BBOTG>
Sent: Wednesday, May 11, 2005 4:29 PM
To: ROCKY KURITA (DEUTSCHE BANK SECURI) <ROKURITA@BBOTG>
Subject:

Message Sent: 05/11/2005 12:29:26
From: GREGLIP@BBOTG|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
To: ROKURITA@BBOTG|ROCKY KURITA|DEUTSCHE BANK SECURI|1726|328663

alliance is looking to buy protection on 25-50mm baa2 hels. in addition, i have a bunch of hedge funds that are axed. all the real money flows are buying protection. we should get short.
Reply:
TRY HARD NOT TO SELL PROT TO ALLIANCE PLEASE...
Reply:
they are only going to us b/c we recommended the trade.
Reply:
GREAT

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1274

VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 00087 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

66050.085

Greg Lippmann@DBAMERICAS

To: Richard R Kim/NewYork/DBNA/DeuBa@DBAMERICAS@DEUBAINT
cc: jordan.milman@db.com, michael.lamont@db.com, sean.mckenna@db.com
Subject: Re: ACA ABS CDO Portfolio

04/05/2006 05:17 PM

yikes didnt see that...half of these are crap and rest are ok...crap -- heat pchlt sail tmts

Greg H. Lippmann
Managing Director
Deutsche Bank Securities Inc.
3rd Floor
60 Wall Street
New York, New York 10005
Phone (212) 250-7730
Fax (212) 797-2201
Mobile (917)[redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Richard R Kim/NewYork/DBNA/DeuBa@DBAMERICAS

04/05/2006 04:17 PM

To greg.lippmann@db.com, jordan.milman@db.com
cc michael.lamont@db.com, sean.mckenna@db.com
Subject ACA ABS CDO Portfolio

FYI
~15-17% Ba in the pool. What is your opinion of these credits?

----- Forwarded by Richard R Kim/NewYork/DBNA/DeuBa on 04/05/2006 03:14 PM -----

"Spilberg, Gregory" <gspilber@tiaa-cref.org>

04/05/2006 02:13 PM

To Richard R Kim/NewYork/DBNA/DeuBa@DBAmericas
cc
Subject ACA Portfolio

Attached is the ACA portfolio as requested. Please note that this portfolio information is confidential and by accepting the portfolio Deutsche Bank also agrees to keep the attached information confidential.

****
This message, including any attachments, contains confidential information intended for a specific individual and purpose, and is protected by law. If you are not the intended recipient, please contact sender immediately by reply e-mail and destroy all copies. You are hereby notified that any disclosure, copying, or distribution of this message, or the taking of any action based on it, is strictly prohibited.
TIAA-CREF
**********{attachment "Current Portfolio for Investors 3-29-06.xls" deleted by Greg Lippmann/NewYork/DBNA/DeuBa}

VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 00088 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

66050.086

Footnote Exhibits - Page 0837

Greg Lippmann
06/26/2006 08:57 AM

To: BRADLEY.SCHWARTZ@jpmorgan.com@DEUBAINT
cc: Andrew.G Isaacs/NewYork/DBNA/DeuBa@DBAmericas, David Ludlow/NewYork/DBNA/DeuBa@DBAmericas, "derek kaufman" <derek.kaufman@jpmorgan.com>, Pius Sprenger/DMGGM/DMG UK/DeuBa@DBEMEA
Subject: Re: Fw: JP Prop - Update

that should work...

Greg H. Lippmann
Managing Director
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New York, New York 10005
Phone (212) 250-7730
Fax (212) 797-2201
Mobile (917) [redacted]
BRADLEY.SCHWARTZ@jpmorgan.com

[redacted] = Redacted by the Permanent Subcommittee on Investigations

BRADLEY.SCHWARTZ@jpmorgan.com

06/26/2006 08:50 AM

To: Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas, Andrew G Isaacs/NewYork/DBNA/DeuBa@DBAmericas, David Ludlow/NewYork/DBNA/DeuBa@DBAmericas, "derek kaufman" <derek.kaufman@jpmorgan.com>, Pius Sprenger/DMGGM/DMG UK/DeuBa@DBEMEA
Subject: Re: Fw: JP Prop - Update

Thx for the feedback. To the extent we can, I would like to substitute the 3 "good" names for the following

PCHLT 2005 -1 B2 (Baa2/BBB+)
JPMAC 2005-FRE1 M9 (Baa3/BBB-)
CWL 2005 BC5 M8 (Baa2/BBB+).

Bradley Schwartz
Managing Director
Proprietary Positioning and Principal Investments
270 Park Avenue
New York, New York 10017

212-834-5144

Greg Lippmann <greg.lippmann@db.com>
06/23/2006 03:57 PM

To: "derek kaufman" <derek.kaufman@jpmorgan.com>
cc:

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1276

VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 00089 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

66050.087

Andrew G Isaacs
<andrew.g.isaacs@db.com>,
"BRADLEY.SCHWARTZ"
<BRADLEY.SCHWARTZ@jpmorgan.com>,
David Ludlow <david.ludlow@db.com>,
Pius Sprenger
<pius.sprenger@db.com>
Subject
Re: Fw: JP Prop - Update

This is a good pool for you because it has a fair number of weak names but not so many that investors should balk (I wouldn't add more of these) and also has only a few names that are very good. The vast majority are average. In terms of optimizing, I guess you could get away with adding some more countrywide names which we think are mediocre (not all investors agree however), perhaps another Centex or People's Choice and reduce or remove the First Franklin, CBASS or POPLR names.

Weak names:

AABST 04-5 B2
AABST 05-3 B2
BAYV 05-C B2
INABS 05-C M8
PPSI 05-WHQ2 M8
PPSI 05-WHQ4 M8
SAIL 05-HE2 M8

The names above will give some investors concerns because they are weak, but since these are all Baa2 we should be ok. This might be smarter than putting in Baa3 off these pool and risking some investors passing.

Mediocre Names
CWL 05- 6 B
CXHE 05-C B2
ECR 05-3 M8
HEAT 05-3 B2
HEAT 05-5 M7
HEAT 05-8 B1
LBMLT 05-WL3 M9
PCHLT 05-4 M9

Good names
CBASS 05-CB2 B3
OOMLT 05-3 M8
POPLR 05-B M6

Also there is quite a lot of WMC paper. WMC trades well so should be easy to include in the pool, but the deals have among the highest concentrations of California loans.

------Original Message------

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66050.088

From: derek kaufman
To: Greg Lippmann
Cc: Andrew Isaacs
Cc: BRADLEY.SCHWARTZ
Cc: David Ludlow
Cc: Pius Sprenger
Sent: Jun 23, 2006 2:42 PM
Subject: Re: Fw: JP Prop - Update

Thanks. I'm very pleased we're getting so close.

Derek

```
|---------+---------------------------->
|         |          Greg Lippmann    |
|         |          <greg.lippmann@db|
|         |          .com>            |
|         |                           |
|         |          06/23/2006 02:40 |
|         |          PM               |
|---------+---------------------------->
>-----------------------------------------------------------------------------------------
-----------------------------------|

|
|
|       To:       "derek.kaufman" <derek.kaufman@jpmorgan.com>
|
|       cc:       Andrew G Isaacs <andrew.g.isaacs@db.com>,
"BRADLEY.SCHWARTZ" <BRADLEY.SCHWARTZ@jpmorgan.com>, David Ludlow   |
|        <david.ludlow@db.com>, Pius Sprenger <pius.sprenger@db.com>
|
|       Subject:  Re: Fw: JP Prop - Update
|
>-----------------------------------------------------------------------------------------
-----------------------------------|
```

2.5,2 and 1.5 enjoy yours as well.

Greg H. Lippmann
Managing Director
Deutsche Bank Securities Inc.
3rd Floor
60 Wall Street
New York, New York 10005
Phone (212) 250-7730
Fax (212) 797-2201
Mobile (917) [redacted]

derek.kaufman@jpmorgan.com

06/23/2006 02:09 PM

[redacted] = Redacted by the Permanent Subcommittee on Investigations

To
Greg_Lippmann/NewYork/DBNA/DeuBa@DBAmericas

cc
Andrew G Isaacs/NewYork/DBNA/DeuBa@DBAmericas, "BRADLEY.SCHWARTZ" <BRADLEY.SCHWARTZ@jpmorgan.com>, David Ludlow/NewYork/DBNA/DeuBa@DBAmericas, Pius Sprenger/DMGGM/DMG UK/DeuBa@DBEMEA

Subject
Re: Fw: JP Prop - Update

Thanks very much -- do you have a rough sense of the overall delta of the A, AA and AAA tranches to the underlying names using these assu
---
Sent from my BlackBerry Handheld.

--
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66050.090

Footnote Exhibits - Page 0841

Greg Lippmann

To: "Borre, Michelle" <mborre@oppenheimerfunds.com>@DEUBAINT
cc:
Subject: Re: new list

08/04/2006
05:55 PM

i am in ny monday and london office wednesday and would be happy to discuss either day...quick thoughts: we can do 50 names (you already knew that secret) that said we wouldnt want quite so many sail (and you would b/c you want it to be more concentrated) so to start I would say max the sail out at 8-10 names and you have 12 so you would need to eliminate 2 of them. (note sail is among the widest spreads so these will likely be 350 area on baa3, another reason to include a lot of them or none of them)....you can certainly build a portfolio by picking only bad names and you have largely done that as Rasc ahl is considered bad as is freemont (bsabs fr, fhlt, jpmac fre, sabr fr, nheli fm deals) ace, arsi and lbmlt. NCHET is a middle tier name and bsabs and svhe (greenwich) are dealer rent a sheves so also lower middle tier.

also the 50 names, needs to be 50 separate securitizations wherease you have among your 50 deals many deals with two tranches....thus in looking at your list, you should start with a plan to use all baa3 (like you did last time) all baa2 or a mix...I would agree that the last time when you did all baa3 is probably the best route.

so from your 75, we are down to 46 separate securitizations.

remove 2 sail say sail 05-1 and 05-2 because they are the earliest and may have a bit more home price appreciation

we are now at 44 names

i would also eliminate deals that are already in your first trade so that you don't doubly lose if those underperform:

ace 05-he2 and 3, (also these are both a little older) I would replace both aces with two other ace say 05-he6 and he7 and add 06-he1 and 06-he2 too....since the ace name is not good and you want to be closer to your big sail position.

so now we are 46 nam es if you swap the 2 older ace for the 4 i mentioned here

similarly, you already have all three fhlt bonds i would roll up in these to 05-c, d, e

back to 46....

you have nchet 05-3 and 05-4, i would replace with nchet 06-2 (and keep 05-b,c,d and 06-1) and also add msac 06-nc1 b3 giving you 6 new century bonds

still at 46.

pchlt 05-2 also in the first deal so I'd remove it. In addition, its the only pchlt you have so better to add another nchet, ace etc...

down to 45

sabr you already have 05-fr2,3,4 so I would pair the 05-fr5 with the other freemonts you have like fhlt, jpmac etc....and maybe add in sabr 06-fr1

down to 43

looking at the sail, in additon to sail 05-1 and 2 which i removed for being old, 5,6 and 7 are all duplicates so I would add back in sail 06-3 and 06-4...again sail is among the very worst names and will trade really wide but we are building a wide pool....i think having 7 sails is enough but if you do the swaps I suggest you are at 9 sails and

down to 42 total names

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1277

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66050.091

looking at the remainder from the top of the list down

arsi is a pretty weak name so I would add arsi 06-w1 and w5 to your 2,3 and 4

brings you back to 45 names (i think)

I would keep all the bsabs

i would remove the gsamp because it is a bit orphaned as the lone goldman sachs rent a shelf

down to 44

leave the jpmac as its freemont and will fit nicely with the fhlt (and other shelves to come)

Long beach is a weak name but you have only picked one relatively older one so I would remove it and either put in no long beach or use 06-1,2 and 3.

Lets assume none for the moment.

down to 43

I would add to the mabs 05-he1, the he2 and he3 deals

back up to 45

keep the nheli 05-fm b/c it fits with the other freemonts

i think the rasc ah deals are good to include and i would put in the ahl1 and ahl2 to join the ahl3 that you picked

brings you to 47

at this point we have

4 ace (probably enough could maybe add 1 more ace 06-he3)
5 arsi good amount
5 bsabs good amounts (this counts the bsabs fr in freemont)
8 fhlt (between fhlt, sabr,bsab jp and nheli)
3 mabs (could maybe add one or two here)
6 nchet (good number)
3 rasc ahl probably ok could maybe add another 1 or 2
9 sail (good number)
2 svhe (could add a few)

so I would suggest finding 3 more bonds that you find appealing I would look for in more or less this order

mabs
svhe
rasc
ace

which should be doable

Greg H. Lippmann

Managing Director
Deutsche Bank Securities Inc.
3rd Floor
60 Wall Street
New York, New York 10005
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Fax (212) 797-2201
Mobile (917) [redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

"Borre, Michelle" <mborre@oppenheimerfunds.com>

08/04/2006 02:58 PM

To Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas
cc
Subject new list

Hi Greg- i took a quick pass at a new list- i want to get it down to 50. i can refine it further- but before i do are there any of these you would throw out? any thoughts on it? thx

have a good weekend. are you around to discuss pricing next week? i am in monday and wednesday...

Michelle

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[attachment "2005-2006 Collateral Info MB.xls" deleted by Greg Lippmann/NewYork/DBNA/DeuBa]

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66050.093

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EDWARD BENNETT WILLIAMS (1920-1988)
PAUL R. CONNOLLY (1922-1978)

March 21, 2011

By Electronic Mail

David H. Katz, Esq.
Counsel
Senate Permanent Subcommittee on Investigations
199 Russell Senate Office Building
Washington, DC 20510

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Re: Deutsche Bank

Dear Mr. Katz:

On behalf of Deutsche Bank, this is to provide information in response to requests made recently by the Subcommittee through you, including those reiterated in your March 16 email to me.

Follow-Up Production Related to Notional Spreadsheet

After DB's production on March 2, you inquired about the long position of DB's RMBS book. I told you that the numbers reflected in our chart did not reflect non-mortgage assets used to hedge mortgage assets, which assets had the effect of reducing the size of the long position. We agreed that DB would prepare a chart including such non-mortgage assets in its RMBS calculation for 12/31/07. A chart doing so is attached. The footnote to the chart is also important in understanding the notional position of the RMBS book at the time.

[redacted]

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1278

PSI-Deutsche_Bank-32-0001

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CDO and RMBS Fees

You had asked for more detail concerning the fees paid to DB for CDO and RMBS underwritings in 2006 and 2007.

For CDO transactions, the structuring and placement fees to which DBSI was entitled pursuant to letters of engagement for CDO transactions it arranged in 2006 and 2007 were generally within the range of .5% and 2.0% of the notional value of total issuance, although the fees that DBSI actually charged were sometimes discounted from these rates.

For RMBS transactions, DB's underwriting fees/underwriters compensation varied depending on the Bank's role in the offering.

For third-party RMBS offerings in which Deutsche Bank Securities Inc. ("DBSI") acted solely as the lead or co-lead manager, DBSI was typically compensated either (1) through a negotiated fee that ranged between 15 and 25 basis points (.15 and .25% of the notional value of the issuance) or (2) through the spread between the certificate price paid to the issuer and the price at which the certificates were sold to investors.

For example, in connection with the underwriting of POPLR 2006-D, the underwriting agreement provided that DBSI would purchase the publicly-offered bonds at a .25% discount off of the public offering price. The publicly-offered bonds had an aggregate principal amount of $347,766,000 and were priced at par in the initial distribution. DBSI underwrote 50% of these bonds while RBS Greenwich Capital underwrote the other 50%. DBSI's underwriting fees earned in connection with POPLR 2006-D would have been approximately $434,707. This is calculated by multiplying the portion of the principal amount purchased and resold by DBSI ($173,883,000) by the underwriting discount (.0025).

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For Deutsche Bank's own shelf offerings (e.g. the ACE and DBALT offerings), DBSI did not earn a traditional underwriting fee. Instead, the Bank sought to profit through (1) the sale of servicing rights in connection with securitizations, (2) interest payments made to DBSP while the loans were owned by DBSP prior to securitization, and (3) investment earnings on the certificates retained by DBSI in its inventory.

I believe that this addresses the questions that we have recently discussed.

Please let me know if you are seeking anything additional or if you would like to discuss the above.

Very truly yours,

Kevin Downey

Enclosures

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Senate Permanent Subcommittee On Investigations
RMBS Notionals, Including Non-Mortgage Hedges

RMBS	12/31/2007
Cash Bonds	
Gross Assets	166,108,401,773
Gross Liabilities	(25,776,021)
Net	**166,082,625,753**
Synthetics	
Gross Assets	57,124,947,630
Gross Liabilities	(117,851,884,240)
Net	**(60,726,936,610)**
Other	
NonMortgage hedges	(28,345,699,904)
Net	**(28,345,699,904)**
Grand Net	**77,009,989,238**[1]

[1] Certain RMBS products have significant large notional values and minimal market values (for example, interest only bonds). If the market value of these RMBS products, rather than the notional value, were used in this calculation, the Grand Net as of December 31, 2007 would be approximately $24 billion, rather than the much larger number reflected here.

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66050.097

LAW OFFICES
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WASHINGTON, D. C. 20005-5901
(202) 434-5000
FAX (202) 434-5029

KEVIN M. DOWNEY
(202) 434-5460
kdowney@wc.com

EDWARD BENNETT WILLIAMS (1920-1988)
PAUL R. CONNOLLY (1922-1978)

March 2, 2011

David H. Katz, Esq.
Counsel
Senate Permanent Subcommittee on Investigations
199 Russell Senate Office Building
Washington, DC 20510

Re: Deutsche Bank

Dear Mr. Katz:

On behalf of Deutsche Bank, this provides information in response to the requests contained in your February 2, 2011 and February 23, 2011 emails to me.

First, in response to your February 2 email, attached is a spreadsheet showing the notional net position of various DB business units in mortgage assets as of various dates in 2007. These are the same dates and same business units whose net revenues were shown in our prior production of information. DB's Finance Department calculated the positions in mortgage assets only for these business units specifically in response to your request. (As you know, the units have other non-mortgage assets).

Second, below find responses to the questions posed in your February 23 email regarding ACE Securities Corp.:

- **Describe DB's ownership interest in or control of ACE including but not limited to whether ACE is a subsidiary, affiliate or other related entity.**

Deutsche Bank has no ownership interest in ACE Securities Corp. ("ACE"). All of the shares of capital stock of ACE are held by Altamont Holdings Corp., a Delaware corporation. Deutsche Bank Securities, Inc. ("DBSI"), however, is an administrative agent for ACE and in that role has authority to act on behalf of ACE in connection with offerings of asset-backed securities, including RMBS offerings.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
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- **DB's role in the creation or formation of ACE.**

Although no one involved in the formation of ACE is still employed by Deutsche Bank, our current understanding is that in 1998, Deutsche Bank hired the AMACAR Group, LLC ("AMACAR") to assist in the creation of ACE to act as a registrant and depositor in connection with RMBS offerings sponsored and/or underwritten by Deutsche Bank.

- **DB's financial relationship with ACE, including any compensation received by either entity and the amount(s) received.**

DBSI pays an annual management fee to AMACAR, which serves as the manager of ACE. Between 1998 and 2006, DBSI paid AMACAR an annual management fee of $10,000. Since 2006, DBSI has paid AMACAR an annual management fee of $20,000. Beyond the annual management fee, in its role as a depositor and issuing entity in connection with RMBS offerings, ACE purchased mortgages from DB Structured Products, Inc. ("DBSP") and sold RMBS certificates to DBSI as described more fully below.

- **Describe generally ACE's role and responsibilities as a depositor and issuing entity in connection with any RMBS deal underwritten by DB.**

ACE participated in many RMBS offerings as a depositor and issuer and acted as the registrant in connection with the shelf registration statements pursuant to which the securities were registered for public sale. ACE is a special purpose corporation incorporated in the State of Delaware on June 3, 1998. ACE's principal executive offices are located at 6525 Morrison Boulevard, Suite 318, Charlotte, North Carolina 28211.

As depositor and issuer, ACE participated in the formation of the RMBS offerings as follows. Generally, pursuant to the various mortgage loan purchase agreements between DBSP and ACE, loans were sold by DBSP to ACE. In connection with this sale, DBSP, ACE and the relevant trustees and servicers entered into a pooling and servicing agreement by which a common law trust was created. ACE would then "deposit" the mortgages loans into the trust and the trust would in turn issue RMBS securities to ACE. ACE would then sell those certificates to DBSI. ACE would then use the proceeds of the sale of the certificates to DBSI to pay for the mortgages acquired from DBSP. DBSI, as underwriter, would then sell the certificates to investors or retain them in its inventory depending on market conditions and demand.

Although in practical terms ACE performed the functions of an issuer, ACE was not technically the legal entity that issued the RMBS securities. Instead, the securities were issued by separate

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common law trusts that were created for each offering. The trusts were created by ACE (as noted above), together with DBSP, and the relevant trustees and servicers, pursuant to pooling and servicing agreements for each offering. For example, the ACE 2006-SL2 Trust is a common law trust formed under the laws of the State of New York pursuant to the pooling and servicing agreement for ACE 2006-SL2, dated March 1, 2006. The pooling and servicing agreement constituted the "governing instrument" under the laws of the State of New York.

- **In 2007 were any DB employees also employed by ACE? If yes, please provide the number.**

No. ACE did not employ any Deutsche Bank employees in 2007.

- **In 2006 – 2007 did ACE act as a depositor exclusively for DB RMBS deals?**

In most instances, between 2006 and 2007, ACE acted as the depositor for subprime RMBS offerings sponsored by DBSP and underwritten by DBSI. In a few instance, however, ACE acted as the depositor for RMBS offerings that were underwritten by DBSI but sponsored by firms that were not affiliated with Deutsche Bank.

- **In 2006 – 2007 did ACE act as an issuing entity exclusively for DB RMBS deals?**

Please see the answer above. ACE's activities as an issuer were identical to its activities as a depositor.

Please do not hesitate to contact me with any questions.

Very truly yours,

Kevin Downey

Attachment

VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 00102 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

66050.100

Greg Lippmann To: michael.lamont@db.com, richard.dalbert@db.com
cc:
Subject: Winchester Capital: Potential Barramundi Purchase: Lochsong Synthetic CDO

08/23/2006
06:49 PM

i was going to reject this because it seems to be a pig cdo position dump 60^ but then i noticed winchester is the portfolio selector.....any idea ???

Greg H. Lippmann
Managing Director
Deutsche Bank Securities Inc.
3rd Floor
60 Wall Street
New York, New York 10005
Phone (212) 250-7730
Fax (212) 797-2201
Mobile (917) [redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

---- Forwarded by Greg Lippmann/NewYork/DBNA/DeuBa on 08/23/2006 06:49 PM ----

"Emilio, Grace \(C-BASS\)" <Grace.Emilio@C-BASS.COM>

08/23/2006 06:46 PM

To: Bruce VanMeter/NewYork/DBNA/DeuBa@DBAmericas, "Deturo, Mac \(C-BASS\)" <Mac.Deturo@C-BASS.COM>, Doug Hamilton/db/dbcom@DBAmericas, "Emilio, Grace \(C-BASS\)" <Grace.Emilio@C-BASS.COM>, Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas, Hiroki Kurita/NewYork/DBNA/DeuBa@DBAmericas, Jordan Milman/NewYork/DBNA/DeuBa@DBAmericas, Lalantika Padmanabhan/NewYork/DBNA/DeuBa@DBAmericas, Michael Lamont/NewYork/DBNA/DeuBa@DBAmericas, Mike Li/db/dbcom@DBAmericas, "Pecache , Janice \(C-BASS\)" <Janice.Pecache@C-BASS.COM>, Peter Luebke/NewYork/DBNA/DeuBa@DBAmericas, Phillip Dominguez/db/dbcom@DBAmericas, "Pyne, Rob \(C-BASS\)" <Rob.Pyne@C-BASS.COM>, Rachel Wish/NewYork/DBNA/DeuBa@DBAmericas, "Rickert, Andy \(C-BASS\)" <Andy.Rickert@C-BASS.COM>, Sean McKenna/NewYork/DBNA/DeuBa@DBAmericas, "Silver, Erik \(C-BASS\)" <Erik.Silver@C-BASS.COM>, Stephen T Hessler/NewYork/DBNA/DeuBa@DBAmericas, Tasneem Selim/NewYork/DBNA/DeuBa@DBAmericas

cc:

Subject: Potential Barramundi Purchase: Lochsong Synthetic CDO

Please see attached marketing materials for Lochsong Synthetic CDO and let us know your thoughts for potential inclusion into the Barramundi warehouse.

We have an IOI (subject to credit) on $24MM of the Class C notes rated A2/A by Moody's and S&P. Price talk is currently at +130 and WAL of the bond is 6.2 years. The deal is scheduled to price the middle to end of next week (8/30 - 9/1).

Some deal specifics:
1. The deal is a static one - 97% of the referenced obligations have been identified thus far. It is anticipated that the remaining 3% will be identified within the next week before closing. The attached spreadsheet is a collateral list.
2. 100% of the collateral is synthetic - with 60% of the securities referencing CDO obligations and the remaining 40% referencing RMBS obligations
3. All ratings on the underlying referenced obligations have an explicit Moody's and/or S&P rating of at least A3/A-.
4. Waterfall is a modified sequential pay that allows the class C's to receive principal

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on day 1.
5. Credit Events include:
a. Failure to pay principal
b. Writedown
c. Distressed ratings downgrade
d. Failure to pay interest (pertaining to the CDO portion of the portfolio)
6. Winchester Capital Principal Finance will serve as asset selector for the transaction and will be responsible for asset selection and surveillance of the portfolio.
7. Winchester is expected to take down 50% of the equity and Goldman is expected to take down the remainder.

Any additional questions, comments or concerns feel free to give a call. Thanks in advance.

Grace Emilio
C-BASS, LLC
Capital Markets Group
212.850.5061 Ph
212.850.7760 Fa
grace.emilio@c-bass.com

- -

This e-mail (including any attachments) may contain information that is private, confidential, or protected by attorney-client or other privilege. If you received this e-mail in error, please delete it from your system without copying it and notify sender by reply e-mail, so that our records can be corrected.

Lochsong1.pdf	**Type:** application/octet-stream **Name:** Lochsong1.pdf
Lochsong2.pdf	**Type:** application/octet-stream **Name:** Lochsong2.pdf
Lochsong Collateral 2.xls	**Type:** application/vnd.ms-excel **Name:** Lochsong Collateral 2.xls

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66050.102



greglip@bbotg
08/30/2006
11:52 AM

To: bwickens1@bbotg-
cc:
Subject:

Message Sent: 08/30/2006 11:52:55
From: GREGLIP@BBOTG|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
To: BWICKENS1@BBOTG|BRADLEY WICKENS|SPINNAKER CAPITAL LT| |

where would you price CBASS 05-CB2 Baa3

its got good CE and has paid down/delvered alot but its not performing well and i think it trades pretty expensive
Reply:
CBASS IS A T OP 3 NAME SO U R RIGHT THEY TRADE TIGHT....I ALSO AGREE SOME OF THEM SEEM TO BE PERFORMING LIKE CRAP AND THEY HAVE HAD A FEW DOWNGRADES ON THEIR 02-04 PAPER...THAT SAID I CAN PRO BABLY SHORT THIS NAME TO SOME CDO FOOL THUS ILL OFFER U PROTECTI ON AT 205....



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66050.103



greglip@bbotg To: bwickens1@bbotg
cc:
Subject:
09/01/2006
12:06 PM

Message Sent: 09/01/2006 12:06:01
From: GREGLIP@BBOTG|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
To: BWICKENS1@BBOTG|BRADLEY WICKENS|SPINNAKER CAPITAL LT| |

can you price MBAS 2006-FRE1 M9 thanks
Reply:
THIS BOND HAS POOL ENHANCEMENT AND THUS ONLY .7% CREDIT ENHANCEM
ETN....THIS KIND OF STUFF RARELY TRADES IN SYNTHETIC MARKET AND
WILL BE TOUGH FOR US TO COVER I.E. SHORT TO A CDO FOOL. THAT SAI
D IF U GAVE US AN ORDER AT 260 WE WOULD TAKE IT AND TRY TO DUPE
SOMEONE. FOR YOU, I'LL MAKE THIS BOND 235-290 B/C OF THE LACK OF
LIQUIDITY IN POOL DEALS RATHER THAN A TIGHTER MARKET LIKE USUAL

AS A POINT OF REFERENCE WE WOULD DO MABS 06-FRE2 M9 AT 245



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Permanent Subcommittee on Investigations
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66050.104



bwickens1@bbotg To: greglip@bbotg
cc:
09/01/2006 12:04 PM Subject:

Message Sent: 09/01/2006 12:04:59
From: BWICKENS1@BBOTG|BRADLEY WICKENS|SPINNAKER CAPITAL LT| |
To: GREGLIP@BBOTG|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663

can you price MBAS 2006-FRE1 M9 thanks
Reply:
CRAP BOND...U R GOOD..
Reply:
maybe too crap to short

OrgSmtpMsg.eml

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
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66050.105

Footnote Exhibits - Page 0856

To: Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas
Melissa Goldsmith cc:
Subject: Re:

09/21/2006 01:12 PM

gotcha. call me when you have a second.

Greg Lippmann/NewYork/DBNA/DeuBa

Greg Lippmann/NewYork/DBNA/DeuBa To Melissa Goldsmith/NewYork/DBNA/DeuBa@DBAmericas
cc
09/21/2006 12:57 PM Subject Re:

Right

Sent from my BlackBerry Handheld.

Melissa Goldsmith

From: Melissa Goldsmith
Sent: 09/21/2006 12:50 PM
To: Greg Lippmann
Subject: Re:

"we shorted" meaning we're short the credit as well?

Greg Lippmann/NewYork/DBNA/DeuBa

Greg Lippmann/NewYork/DBNA/DeuBa To Melissa Goldsmith/NewYork/DBNA/DeuBa@DBAmericas
cc
09/21/2006 12:49 PM Subject Re:

MSHEL 2006-1 B3 230 crap we shorted
FFML 2006-FF10 M9 245 ffml was top tier, fast becoming mid tier
GSAMP 2006-HE3 M9 265 this bond sukks but we are short 20MM
FFML 2006-FF1 M9 235 see above
GSAMP 2006-HE1 B1 240 better than other gsamo but tighter
ACE 2006-NC1 M9 248 ace is generally horrible and new century I mid tier.

Looks like you were well taken care of. Which I am happy about.

Sent from my BlackBerry Handheld.

Melissa Goldsmith

From: Melissa Goldsmith
Sent: 09/21/2006 12:46 PM
To: Greg Lippmann

MSHEL 2006-1 B3 230

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
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Confidential Treatment Requested by DBSI

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FFML 2006-FF10 M9 245
GSAMP 2006-HE3 M9 265
FFML 2006-FF1 M9 235
GSAMP 2006-HE1 B1 240
ACE 2006-NC1 M9 248

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66050.107

Axel Kunde@DBEMEA 10/02/2006 04:57 PM

To: Sean Whelan/db/dbcom@DBAmericas
cc: Pius Sprenger/DMGGM/DMG UK/DeuBa@DBEMEA, Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas
Subject: Fw: King Street

Sean,

here is what we would like to propose:

King Street shorts the whole portfolio they have chosen at the protection offer level to us. They also buy the 25-35% AAA and the 35-100% Super Senior at current market levels, we underwrite all the other tranches between 3% and 25%, and King Street takes the 0-3% Equity which gets all residual cash flows. The economics in this trade are the same as in a publicly marketed full capital structure CDO whereas in fact King Street is doing their own private deal with us. There are a couple of things to note about full cap structure deals though:

1) It is almost impossible to place BBB risk and below without a manager, and even single-A is challenging
2) The portfolio which KingStreet selected with high concentrations in LBMLT, HEAT, INABS, AMSI/ARSI, RAMP/RASC, and CWL would be impossible to sell to the public
3) The structuring/placement fees on full cap deals are 1-1.5% of the portfolio notional, ratings are about 0.5% of notional, and there are administrative costs for the trustee
4) The ratings of the notes are supported by IC/OC triggers which divert cash flows away from the equity, and which we do not have in our trades.

So there is no way King Street could place the 3-25% risk on their portfolio in the market. However, we are willing to take the risk down, and in addition with a much simpler structure without IC/OC: We offer 15 bps on the 35-100, 45 bps on the 25-35, and we underwrite the 3-25 at the average portfolio spread. In return KingStreet pays us one year's protection premium on the portfolio notional upfront, i.e. roughly 2.5%. Part of this upfront payment covers our loss from underwriting the mezzanine tranches below market levels. The rest is for taking down the risk on an unsalable deal plus as a substitute for structuring/placement fees which KingStreet would have to pay on any other deal.

The economics of the trade for KingStreet are simple: Assuming an average portfolio spread of 250 bps, they pay us 2.5% upfront and 3% for the equity. At this spread the equity will return roughly 60% , i.e. 1.8% of portfolio notional p.a. Put differently: If all credits survive for the first 3 years King Street will have recovered their initial upfront payment plus the equity notional - the rest is upside. If reference credits were to default before year three the equity would nonetheless get all the XS income of the portfolio. But King Street would also receive protection payments from us for the defaulted credits. In addition, if spreads on Home Equity BBBs were to widen out King Street could sell protection on the single-name portfolio, thereby locking in a positive carry for the lifetime of the trade while still benefitting from the mezz protection they bought from us.

I think that's a very efficient way of executing a structured short on the Home Equity market, with very limited downside if nothing defaults (average portfolio spread on 22% of cap structure plus 2.5% upfront). Please let me know what they say.

Kind regards,

Axel.

Axel Kunde
Deutsche Bank AG, London
ABS Correlation Trading

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
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Tel.: +44 207 545 7800
Mobile: +44 7795 122 235

----- Forwarded by Axel Kunde/DMGGM/DMG UK/DeuBa on 02/10/2006 18:04 -----

Sean Whelan/db/dbcom@DBAMERICAS	To	Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas
	cc	"Axel Kunde" <axel.kunde@db.com>, "Pius Sprenger" <pius.sprenger@db.com>
27/09/2006 19:52	Subject	Re: King Street

they want to short the market and are willing to pay the freight. in the correlation trade they are long idiosyncratic risk. they also ran breakevens- which they feel are high- 2 events virtually knock out the equity- for every subsequent event their max benefit is 1.8 mm. crude- but they would need 7 events to break even. (yes- this ignores spread widening on the remainder.)- they think a more efficient short is a bespoke trade. their ideal short would be the belly of the capital structure. when we last spoke about it, we told them the equity and the AAA were the parts we found difficult to place. they are willing to buy the equity and even the AAA's t get an efficient short of the belly-

Greg Lippmann/NewYork/DBNA/DeuBa	To	Sean Whelan/db/dbcom@DBAmericas, "Pius Sprenger" <pius.sprenger@db.com>, "Axel Kunde" <axel.kunde@db.com>
	cc	
09/27/2006 02:31 PM	Subject	Re: King Street

Whjat does thaty mean? Will they massively overshort vs 6x coupon??

Sent from my BlackBerry Handheld.

From: Sean Whelan
Sent: 09/27/2006 11:02 AM
To: Greg Lippmann
Subject: Re: King Street

Greg- I was not accurate- do not want to do a fully placed deal . they want to short the entire delta- thanks-

Greg Lippmann/NewYork/DBNA/DeuBa	To	Sean Whelan/db/dbcom@DBAmericas, Axel Kunde/DMGGM/DMG UK/DeuBa, Pius Sprenger/DMGGM/DMG UK/DeuBa
	cc	
09/27/2006 10:57 AM	Subject	Re: King Street

Which is it ? Magnetar is fully placed and talk to lamont. If they want to do our trade but short entire delta we can price that too.

Sent from my BlackBerry Handheld.

From: Sean Whelan

VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 00111 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

66050.109

Footnote Exhibits - Page 0860

Sent: 09/27/2006 10:51 AM
To: Greg Lippmann; Axel Kunde; Pius Sprenger
Subject: King Street

Spoke with King Street this morning. rather than do the carry neutral correlation trade, the would like to pursue a bespoke or Magnatar type trade. They want more leverage and are willing to hold the equity in a 375mm type transaction, and short the rest of the capital structure . the 75 names we have can be used, or we can add if need be-thanks-Sean

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66050.110

Greg Lippmann

To: "Craig Carlozzi" <craig@mastcapllc.com>@DEUBAINT
cc: "Chris Madison" <chris@mastcapllc.com>
Subject: Re: subprime CDS

10/20/2006
06:36 PM

levels are basically unchanged: see comments below

FMIC 06-2 M8 - 135, Fieldstone likely to go bk or be bought by the street within 6 months so headline risk could make it a good short. Very low gross wac of 6.18 could lead to payment shock. 45% IO. Bond was shorted to us by an ABS Hedge Fund in full competiton at 135 on October 18.

ACCR 06-1 M8 - 130. One of the top / most respected names. The 2006 vintage seems to be worse / more similar to other shelves than prior ones (see recent new stories on LEND) and thus it is trading closer to other names than the 2005 cohort does. We shorted this very bond a bit above 100 over in competiton to a CDO manager on October 19 and thus can make this one a bit tighter. Moderately high FICO with low LTV and low California. On the other hand, 34% have second mortgages, only 57% Full Doc and 8% investor property.

LBMLT 06-5 M9 - 375. Long Beach is one of the weakest name in the market. We shorted this bond to a CDO in the mid-300s on october 13. Deal was done in late June before S & P changed their criteria on July 1. Lots of 40 year mortgages as evidenced by the 409 WAM. (360 being 30 year) Less than half the loans have full documentation and 10% are investor properties. This is a real pig.

LBMLT 06-2 M9 350. See above on Long Beach. This one is already performing poorly with substantial delinquencies. Further the FICO is less than the 06-5 and there are fewer full doc loans. This seems a better short than the 06-5. Only reasons I can think for my guys showing you a tighter level is that we are very short this one and that the June 06 deals have a taint that earlier months dont due to the theory that late June deals were crammed with bad stuff in order to beat the S & P revisions.

RASC 06-EMX2 M8 145. This was shorted to us at 145 on Sep 29. If anything the market is a bit wider since then. These trade somewhat tight because they have extremely low California percentages and decently high (64%) of full doc loans. 10% of the loans are second liens so that could make this a good short.

FFML 06-FF13 M9 270. A CDO got long this risk in competition at 240 on October 10 so this is a good level i.e. roughly 1 point bid /ask. The CDOs like First Franklin because of the high FICO scores, but I like shorting them becuase of the low enhancement, very high % of silent seconds and in this case large number of 40 year mortgages (421 WAM) especially coupled with the 30% IO, a 40 year mortgage is a another way of saying an IO in my view.

SAST 06-1 B2 200. No trading in this name recently. SAXON is one of the weakest originators/servicers. Loans don't look too bad though. On the other hand, 371 WAM is a bit high and 603 FICO is quite low.

CWL 06-BC3 M9 350. No trading in this name recently. Countrywide is a mid-tier issuer. Not much to say here other than low FICO. Some of the others might be more appealing.

Greg H. Lippmann
Managing Director
Deutsche Bank Securities Inc.
3rd Floor
60 Wall Street
New York, New York 10005
Phone (212) 250-7730
Fax (212) 797-2201
Mobile (917) [redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

"Craig Carlozzi" <craig@mastcapllc.com>

10/20/2006 02:44 PM

To Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas
cc "Chris Madison" <chris@mastcapllc.com>

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1284

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Footnote Exhibits - Page 0862

Subject subprime CDS

Greg,

Here are the tranches that Chris and I find the most attractive. We'd appreciate any thoughts you may have...

Thanks for your help,
Craig

Tranches:
FMIC 2006-2 M8 135, fieldstone likely to go bk or be bought by the street within 6 months so this could be a good short.
ACCR 2006-1 M8
LBMLT 2006-5 M9
LBMLT 2006-2 M9
RASC 2006-EMX2 M8
FFML 2006-FF13 M9
SAST 2006-1 B2
CWL 2006-BC3 M9

Craig Carlozzi, CFA
Senior Analyst/Partner
MAST Capital Management LLC

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66050.112



GREGLIP@bloomberg.net Tomlee@contrariancapital.com
cc
12/04/2006 10:06 AM bcc
SubjectRE:

=====Begin Message=====
Message#: 122868
Message Sent: 12/04/2006 10:06:17
From: GREGLIP@bloomberg.net|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
To: mlee@contrariancapital.com| | | |
Subject: RE:

sure....this afternoon...u have picked some crap right away so u have figured it
out
----- Original Message -----
From: Mark Lee <mlee@contrariancapital.com>
At: 12/04 10:00:21

That's great. We assumed that we were going to pick some that didn't
make sense. If you want you can call me today and I will tell you how
we are looking at this and why it is taking us some time.

-----Original Message-----
From: greglip@bloomberg.net [mailto:greglip@bloomberg.net]
Sent: Monday, December 04, 2006 9:59 AM
To: Mark Lee
Subject: Re:

lets work through amin the oomlt 06-2 is one of the worst deals ever so
not sure that is going to be a good one to match up on...will be bac k
on these.
----- Original Message -----
From: Mark Lee <mlee@contrariancapital.com>
At: 12/04 9:56:48

Could you give us quotes on the BBB- bond on the following deals?
Bear BSABS 06-HE8
Bear BSABS 06-HE7
Option One OOMLT 06-2
Ameriquest AMSI 06-R1

Also, I sent you our DB coverage last week. Where should we start for
ISDA?

Mark Lee.
Portfolio Manager
Contrarian Capital
411 West Putnam
Suite 225
Greenwich CT 06830

P: (203) 862-8203
F: (203) 629-1977

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Footnote Exhibits - Page 0864

Greg Lippmann/NewYork/DBNA/DeuBa@DBAMERICAS
12/08/2006 11:49 AM

Topfaulkner@psamllc.com
cc
bcc
Subjectother bonds

just traded these

ACCR 2006-1 M8 160
SAST 2006-2 B2 190
CWL 2006-BC2 M8 225
FMIC 2006-3 M8 180

Just offered these:

Deal	8-Dec
ABSHE 2006-HE5	300.00
ACE 2006-OP1	300.00
AMSI 2006-R2	450.00
ARSI 2006-W1	550.00
FFML 2006-FF8	325.00
FHLT 2006-2	435.00
GSAMP 2006-HE3	400.00
GSAMP 2006-NC2	525.00
HEAT 2006-7	460.00
JPMAC 2006-WMC1	325.00
LBHLT 2006-WL1	310.00
MSAC 2006-HE5	385.00
RASC 2006-KS3	460.00

your bonds

gsamp 06-nc2 m8 this is an absolute pig...see the m9 above will offer the m8 at 375
bsabs 05-he12 m7 225
rasc 05-ks8 m8 pass t his is a bad deal and we are already long it

Greg H. Lippmann
Managing Director
Deutsche Bank Securities Inc.
3rd Floor
60 Wall Street
New York, New York 10005
Phone (212) 250-7730
Fax (212) 797-2201
Mobile (917) [redacted]
greg.lippmann@db.com

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66050.114

Footnote Exhibits - Page 0865



GREGLIP@bloomberg.net ToJORIS1@bloomberg.net
cc
03/01/2007 05:42 AM bcc
Subject

```
=====Begin Message=====
Message#: 118415
Message Sent: 03/01/2007 05:42:30
From: GREGLIP@bloomberg.net|GREG LIPPMANN|DEUTSCHE BANK
SECURI|1726|328663
To: JORIS1@bloomberg.net|JORIS HOEDEMAEKERS|OASIS CAPITAL (UK) L|
|
Subject:

JORIS-SORRY YOUR LIST GOT BURIED UNDER THE TO DO LIST HERE U
GO:
ABSHE 2006-HE1 M7   500 CRAP
DEAL
ACE 2005-RM2 M9
475
ACE 2006-HE2 M7     550 DEAL IS A
PIG !
BSABS 2006-HE3 M7
650
MLMI 2006-HE1 B1A
325
SAST 2005-2 B2
300
SAST 2005-3 B2
300
=====End Message=====
```

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VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 00117 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

66050.115

From: BRADLEY WICKENS (SPINNAKER CAPITAL LT) <BWICKENS1@BBOTG>
Sent: Thursday, June 8, 2006 1:26 PM
To: GREG LIPPMANN (DEUTSCHE BANK SECURI) <GREGLIP@BBOTG>
Subject:

Message Sent: 06/08/2006 09:26:11
From: BWICKENS1@BBOTG|BRADLEY WICKENS|SPINNAKER CAPITAL LT| |
To: GREGLIP@BBOTG|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663

what going on in housing, with these hawkish sounds and grwoth concerns should be playing straight into our hands
Reply:
nothing....stuff is flat b/c the cdo machine has not slowed but i am fieleding 2-4 new guys a day that are kicking the tires so we probably dont go tighter...i remain convinced that the trade will work and trying not to be too frustrated that it is not happeneing as soon as we would like given the moves in other markets....
Reply:
honestly, i was always concerned about the CDO machine, which is whi i stayed out at first. i think you can put this on in september

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66050.116

From: GREG LIPPMANN (DEUTSCHE BANK SECURI) <GREGLIP@BBOTG>
Sent: Tuesday, August 29, 2006 5:25 PM
To: BRADLEY WICKENS (SPINNAKER CAPITAL LT) <BWICKENS1@BBOTG>
Subject:

Message Sent: 08/29/2006 12:25:20
From: GREGLIP@BBOTG|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
To: BWICKENS1@BBOTG|BRADLEY WICKENS|SPINNAKER CAPITAL LT||

The JPMAC -05-FRE1 has very good step down CE lvls, maybe not

such no brainer short at 210

Reply:

WE MISSED THAT....

Reply:

its a minefield this market, CS has exactly the same view as

you, one day the music will stop.

Reply:

IT WILL..I DONT CARE WHAT SOME TRAINED SEAL BULL MARKET RESEARCH

PERSON SAYS THIS STUFF HAS A REAL CHANCE OF MASSIVELY BLOWING UP

AND ON MY SONS LIFE I HAVE BEEN SHORT 800MM TO 2.2BB CONTINUOSL

Y SINCE BEFORE I STARTED SPEAKING WITH U...THESE PEOPLE (AND ME

TOO I GUESS) HAVE NEVER SEEN A BEAR MARKET SO THEY CANT IMAGINE

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Greg Lippmann/New York/DBNA/DeuBa@DBAMERICAS
03/04/2007 10:04 AM

To "Harvey Allon" <Hallon@Braddockfinancial.com>
cc
bcc
Subject Re: A new take

Indeed. Speak when you land, safe comfortable flight.

Sent from my BlackBerry Handheld.

----- Original Message -----
From: "Harvey Allon" [Hallon@Braddockfinancial.com]
Sent: 03/04/2007 08:04 AM MST
To: Greg Lippmann
Subject: RE: A new take

Heading to airport. My issue with hpa is that it doesn't have much to do with the hpa in the locations where the subprime loans are concentrated. The stories from new construction areas for example are nightmares. -20% hpa is not uncommon.

From: Greg Lippmann [mailto:greg.lippmann@db.com]
Sent: Sunday, March 04, 2007 7:58 AM
To: Harvey Allon
Subject: Re: A new take

I remain firm in my belief that these are blowing up whether people like it or now and that hpa is far less relevant for subprime than these bulls think. Can't blame them because if this blows up lots of people lose their jobs so they must denyv in hope that that will help prevent the collapse. At this price I'm nearly just as short as I've ever been.

Sent from my BlackBerry Handheld.

----- Original Message -----
From: "Harvey Allon" [Hallon@Braddockfinancial.com]
Sent: 03/04/2007 07:55 AM MST
To: Greg Lippmann
Subject: RE: A new take

I see a problem with Glenn's theory in the first few sentences. "The problem with the early defaults is bad underwriting." No shit Sherlock!

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From: Greg Lippmann [mailto:greg.lippmann@db.com]
Sent: Sunday, March 04, 2007 7:46 AM
To: Harvey Allon
Subject: Re: A new take

Did not, thanks. Working out sitter / time / venue for tonight now. Be back. Will read this now and be back soon.

Sent from my BlackBerry Handheld.

----- Original Message -----
From: "Harvey Allon" [Hallon@Braddockfinancial.com]
Sent: 03/04/2007 07:44 AM MST
To: Greg Lippmann
Subject: FW: A new take

Didn't know if you got this.

From: Dave Myers
Sent: Friday, March 02, 2007 10:30 AM
To: Kevin Ahern; Harvey Allon
Subject: A new take
Importance: High

From: Wachovia Structured Products Research [mailto:WBSP.Research@wachovia.com]
Sent: Thursday, March 01, 2007 5:14 PM
To: undisclosed-recipients
Subject: Glenn Schultz: U.S. Housing Outlook Update
Importance: High

U.S. Housing Outlook Update
First-Quarter 2007 Update

Executive Summary

On Nov. 14, 2006 we published our *Housing Outlook* and predicted that home price appreciation would be 3.0%-5.0%

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over the next 3-5 years. Our forecast has not changed.

The Office of Housing Enterprise and Oversight (OFHEO) home price index released on March 1, 2007, follows the releases of both the existing home sales median price, a poor indicator of home prices, and the S&P Case-Shiller home price index, arguably one of the better indicators of home prices. The OFHEO home price statistics were released against the backdrop of increased market volatility and concern surrounding the subprime borrower or, more accurately, concern regarding subprime underwriting criteria. The housing bears will have to wait another day for their route; an event that will, in our opinion, never happen. Rather, we suggest that investors focus more on the fundamentals, namely low unemployment, strong personal income growth, the supply of housing and the quality of underwriting.

In this update, we examine recent home price statistics as well as the fundamentals that we believe provide a strong foundation to the U.S. housing market. In addition, we reiterate our belief that a homeowner will not default simply because home prices did not appreciate or modestly declined. Rather, as we stated in December 2006, the recent spate of delinquency and early default are a result of poor underwriting.

<<US_Housing_Outlook_Update_030107.pdf>>

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Erin K. Walsh
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(704) 715-7936

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66050.120



Michael George/NewYork/DBNA/DeuBa@DBAMERICAS

06/23/2007 07:37 AM

To Greg Lippmann/NewYork/DBNA/DeuBa@D
cc
bcc
Subject Re: Bear: Will Provide $3.2B To Its Hig

Question is who else sells.....the Europeans will just bury in their portfolios.....most of them are no where near as transparent as say Abbey was. Ralph's porfolio going to be a huge overhang on market.....why buy new issue when you can just to knock on the Bear HFs door and McGarrigal will have something for you !!!
Michael R George
Managing Director
Deutsche Bank
60 Wall Street
New York, NY 10013
+1-212-250-6819
+1-917-459-3207
Sent from my BlackBerry Handheld.

From: Greg Lippmann
Sent: 06/23/2007 06:59 AM EDT
To: Michael George/NewYork/DBNA/DeuBa@DBAmericas@DBAMERICAS@DEUBAINT
Subject: Re: Bear: Will Provide $3.2B To Its High-Grade Hedge Fund

Yup this is the beginning of phase 2 (the bulls still can't see it), sales by the longs and how do you think the foreign banks will feel when they see that the true mark for what they have is.....this could be the end of the cdo biz. I want to print 100% of verticals monday list. Please be involved.

Sent from my BlackBerry Handheld.

From: Michael George
Sent: 06/23/2007 04:12 AM EDT
To: Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas@DBAMERICAS@DEUBAINT
Subject: Re: Bear: Will Provide $3.2B To Its High-Grade Hedge Fund

Reading the Bear CFO's statement to the press.....
'The market for CDOs will stabilise and then they'll resume asset sales"

How they expect this to happen with Ralphie Fund overhanging the market beats me....there's the 3.2bn from Bear...plus Citi's repo positions plus Bracaps.....market will continue to go down until prices reach a level attractive enuff to attract new capital.
Michael R George
Managing Director
Deutsche Bank
60 Wall Street
New York, NY 10013
+1-212-250-6819
+1-917-459-3207
Sent from my BlackBerry Handheld.

From: Greg Lippmann
Sent: 06/22/2007 11:24 PM EDT
To: Michael George
Subject: Fw: Bear: Will Provide $3.2B To Its High-Grade Hedge Fund

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Wall Street & The Financial Crisis
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Sent from my BlackBerry Handheld.

From: Ted Meyer
Sent: 06/22/2007 05:30 PM EDT
To: Alan Cloete; Alex Crossman; Barry Bausano; Greg Lippmann; Joseph Randazzo; Matt Connolly; Michele Allison; Patrick McKenna; Philip Weingord; Renee Calabro; Richard Walker; Robert Khuzami
Subject: Bear: Will Provide $3.2B To Its High-Grade Hedge Fund

Bear: Will Provide $3.2B To Its High-Grade Hedge Fund
(Dow Jones 06/22 14:06:56)

NEW YORK (Dow Jones)--Bear Stearns Chief Financial Officer Sam Molinaro said Friday that the bank's financial condition remains strong, as it seeks to raise $3.2 billion to shore up its troubled hedge funds business.

In a conference call, Bear Steans' Molinaro said that the bank's financial condition remains strong and its has "ample liquidity" for the $3.2 billion loan extended to one of its troubled hedge funds. The bank is seeking to facilitate an orderly deleveraging of its hedge funds, which have experienced significant liquidity problems over the last few weeks.

While valuations have clearly been pressured over the past couple of weeks, he said Bear Stearns has more than adequate collateral to cover its liabilities.

But Molinaro pointed out that exact figures are difficult to gauge, given the "fluidity" of current market conditions.

Bear confirmed the financing Friday as the fund's managers struggled to settle their debts to a group of Wall Street lenders, including Deutsche Bank AG (DB), Merrill Lynch & Co. (MER) and Lehman Brothers Holdings Inc. (LEH).

Earlier this week, creditor Merrill Lynch was the first among creditors to seize collateral - much of it mortgage-backed debt - from Bear's internal hedge funds, the High Grade Strategies Fund and its High Grade Credit Strategies Enhanced Leverage Fund. Merrill held an auction of $100 million of seized assets Thursday.

Bear's intervention appears to have nipped further such action in the bud. Molinaro said Friday that "all of the threats of liquidations have been pulled while we're negotiating with counterparties." Earlier this week, creditors were circulating lists of assets for sale in an attempt to curb their exposure. Merrill went ahead and sold a fraction of its $850 million up for sale while Lehman Brothers put $400 million on the block Thursday, according to a source.

Nevertheless, he conceded that values of the collateral in two troubled hedge funds have been "beaten down" in the past couple of weeks.

"Some assets are being sold to dealers," Molinaro said, adding "the situation is fluid."

The deleveraging may take several months to complete, in a gradual process to avoid overburdening the market.

Bear is hoping that market conditions will stabilize in the meantime. It will take "several months to wind down the asset levels," he said.

Responding to a question about the covenants involved in the Bear Stearns loan, Molinaro said "we haven't completely drilled down on this issue" and that it will "take several months to work this out."

The executive said he didn't envisage any impact on Bear Stearns' reputation from the troubles of its hedge fund business.

Asked about the timeline of the deterioration, Molinaro said the funds recorded their first negative performance in March, after 40 quarters of profit.

The redemption requests started to arrive in April, and the pressure

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intensified from there. "I believe we closed the fund to redemptions in May," said Molinaro.

The losses multiplied as the values of the portfolios sank. The inability to satisfy margin calls triggered more declines, he said, describing the event as a "vicious circle."

--

Bear Puts Up $3.2B & Seeks To Explain Funds Slow-Motion Crash
(Dow Jones 06/22 17:20:31)

By Emily Barrett

NEW YORK (Dow Jones)--Bear Stearns Cos (BSC) stepped into the melee surrounding its troubled hedge funds business Friday with some urgent finances, and an attempt to explain how the slow-motion subprime landslide engulfed some of its most leveraged investments.

The damage control comes days after it emerged that two Bear hedge funds - the High Grade Structured Credit Fund and High Grade Structured Credit Enhanced Leverage Fund - were foundering on bad investments in the subprime mortgage market.

Wall Street banks were circling and Merrill Lynch (MER) was first to swoop, seizing around $1 billion in debt to auction in a fire sale.

In a conference call Friday, Sam Molinaro, Bear's chief financial officer, first sought to reassure investors of the bank's financial strength, observing that the investment bank can easily cover the $3.2 billion it plans to inject into one of the two troubled hedge funds - the High-Grade Fund. He also pointed out that the bank's mortgage business is in good health, and that Bear had no "material" lending exposure to the funds in the first place.

Bear Faces Criticism As Investors Mull Deal

Not all stock market observers are persuaded. Punk Ziegel analyst Richard Bove says Bear's loan is a poor use of investor funds. Shareholders are "faced with the fact that the company may be lending money at below the rate" it earns on capital invested into the fund, he said, noting that "there is no good way" to determine the value of the fund's assets.

"It is also important to understand that $3.2 billion, if this is the right number, is 24.8% of Bear Stearns common equity," Bove says. "This is no small bet."

That view was reflected in late trade. Shares in Bear Stearns closed down 1.4% at $143.75 on a day when broad concerns about the deterioration in securities tied to subprime mortgages pushed down the financial services sector and the main market indexes.

Only An Episode In Subprime Drama

It's becoming clear that Friday's action is only an episode in the drama that began back in March, and is far from over.

Back in February, as delinquencies mounted among subprime borrowers, and mortgage lenders started to fail, the securities that ultimately bundle these risky loans began to suffer. This had a knock-on effect on the riskiest layer of the debt structures held by investors such as the two hedge funds.

Molinaro conceded that the funds' investments recorded their first negative returns back in March. The first redemption requests from lenders came in April. Declining values triggered margin calls among lenders, which then created a "vicious circle," the executive explained.

"I believe we closed the fund to redemptions in May," he said.

Molinaro warned that the value of the funds' assets had taken a blow in recent weeks, and it may take months for the total debts to be unwound.

Investors Friday were hazarding predictions of their own, asking who might be next with an uncomfortable call to investors.

"It's not over," said Michael Cheah, portfolio manager at AIG SunAmerica

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Asset Management in Jersey City, N.J.
"We have seen how an extremely experienced group of people in the mortgage-backed world could lose so much money," he said. "I would be shocked if they were the only ones."

Define "Orderly Deleveraging"

Bear is relying heavily on what it describes as an "orderly deleveraging" to clear the decks at the two funds - particularly the Enhanced Fund, whose fate remains unclear. Any sudden dumping of the riskiest assets on an already fragile market could send their value - the funds' collateral - into a nosedive.

The bank can most likely count on buyers in time, however. A senior merger arbitrage trader at a large New York hedge fund said he believed Bear would recover its loan in full "unless, of course, no one bids for these CDOs and the price plummets."

"But I think someone will buy them - the world has not changed that much," he said.

CDOs refer to collateralized debt obligations, complex structured products based on pools of assets - in this case, loans to borrowers with poor credit histories.

The bank's hopes for a tidy resolution met with bemusement from some market participants Friday. "Orderly is a pretty subjective term," said Derrick Wulf of Dwight Asset Management.

"More orderly than a fire sale? Sure," he said.

The bank has restored calm on this level - the threatened fire sales haven't materialized. Merrill went ahead and sold a fraction of the $850 million in collateral it reclaimed, while Lehman Brothers (LEH) put $400 million on the block Thursday, according to a source. Cantor Fitzgerald was said to have also sold $400 million.

Bear's intervention appears to have nipped such action in the bud. Molinaro said Friday that "all of the threats of liquidations have been pulled while we're negotiating with counterparties."

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Director, Head of Media Relations - Americas
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ted.meyer@db.com

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66050.124

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Greg Lippmann
To: ed.divgi@db.com
cc:
Subject: pFw: materials

09/20/2005
07:13 PM

[redacted] = Redacted by the Permanent Subcommittee on Investigations

please print me out 3 copies of each of these (and staple them)

Greg H. Lippmann
Managing Director
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3rd Floor
60 Wall Street
New York, New York 10005
Phone (212) 250-7730
Fax (212) 797-2201
Mobile (917)[redacted]

---- Forwarded by Greg Lippmann/NewYork/DBNA/DeuBa on 09/20/2005 07:13 PM ----

Greg Lippmann
09/19/2005 07:08 PM

To: Amin Arjomand/NewYork/DBNA/DeuBa@DBNA
cc:
Subject: materials

here is the bear case for the product

here is a way to do it with little to no negative carry

Greg H. Lippmann
Managing Director
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3rd Floor
60 Wall Street
New York, New York 10005
Phone (212) 250-7730
Fax (212) 797-2201
Mobile (917)[redacted]

The Bear Case For Home Equity Mezzanines.ppt — **Type:** application/octet-stream **Name:** The Bear Case For Home Equity Mezzanines.ppt

Long Equity Short Portfolio Sep 2005.pdf — **Type:** application/octet-stream **Name:** Long Equity Short Portfolio Sep 2005.pdf

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Shorting Home Equity Mezzanine Tranches

A strategy to cash in on a slowing housing market

Deutsche Bank

1

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Summary

- Investor expresses a bearish view on the subprime US RMBS market (or the US Consumer or US Home Prices) by shorting (or buying protection on) a selected basket of mezzanine Home Equity ABS credits
- We believe this product is the most efficient way to express these views; more efficient than shorting stocks of homebuilders, REITs, the S&P 500, etc. We are interested in hearing of other ideas
- Since Nov 2004, spreads for Baa3 assets have compressed from 350DM to 175DM and for Baa2 assets from 200DM to 130DM, but if anything, risk of a housing bubble / defaults has only increased with the continued proliferation of alternative mortgage products such as IOs, silent seconds and option ARMs. These products have become increasingly popular as home price increases continue to outstrip wage growth
- Though each deal has certain idiosyncrasies that on the margin make one deal better or worse, from a default perspective, the risk in the asset class remains a macroeconomic risk – e.g. all pools have thousands of loans and are geographically dispersed with similar credit scoring models and underwriting procedures across issuers with defaults ultimately driven by 3 things: home prices, interest rates (payment shocks and ability to refinance/move) and unemployment
- Historical data show that losses in subprime mortgage collateral are strongly negatively correlated with home price appreciation, both in default frequency and severity. In a scenario where home prices grow significantly slower than what has been seen in the past few years, especially in high growth states such as California and Florida, one may expect losses to be substantially higher than what has been experienced in the recent past. The result could be more dramatic should prices actually decline
- Rating agencies' rating models for subprime mortgage lending criteria and bond subordination levels are based largely on performance experience that has mostly accumulated since the mid-1990s, when the nation's housing market has been booming
- In a flat housing market, most subprime RMBS rated BBB- or BBB may come under severe stress. Dramatic spread widening, downgrades or even loss of principal and interest could result

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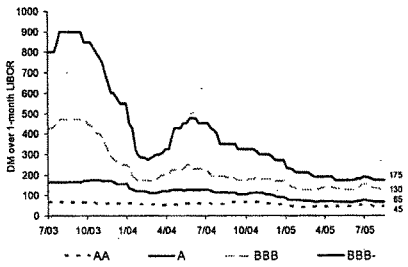
Spreads for BBB & BBB- home equity tranches have tightened since summer 2003



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Over 50% of outstanding subprime mortgages are located in the MSAs with double digit 5-year average of annual home price growth rates



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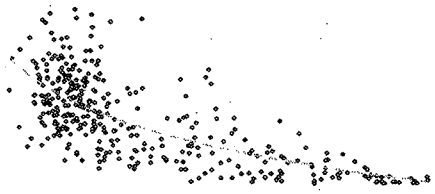
There is a strong negative correlation between home price appreciation and loss severity



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Loss severity ratios have been strongly negatively correlated with home price appreciation rates

- In the chart on the previous page
  - Defaults are defined as loans exiting pools when being more than 90 days in delinquency, in foreclosure or in REO
  - Only loans belong to pools where losses are reported by LoanPerformance are included but zero severity liquidations are also included
  - For each individual loans, if loss amount exceeds the outstanding balance, actual loss amount will be used (i.e. loss severity ratios above 100% are allowed.)
- Most MSAs with loss severity ratios above 60% are smaller ones with relatively few samples, such as Elmira, NY (75%), Terre Haute, IN (74%) Cumberland, MD-WV (73%) and LIMA,OH (72%). Larger MSAs with high loss severity ratios include Pittsburgh, PA (59%). Dayton, OH (56%), Indianapolis, IN (52%) and Cleveland-Elyria-Mentor, OH (49%)
- Some larger MSAs with high home price appreciation rates had very low loss severity ratios. These include Los Angeles (1%), Riverside-San Bernardino-Ontario, CA (2%), Nassau-Suffolk, NY (3%) and Fort Lauderdale-Pompano Beach-Deerfield Beach, FL (3%)

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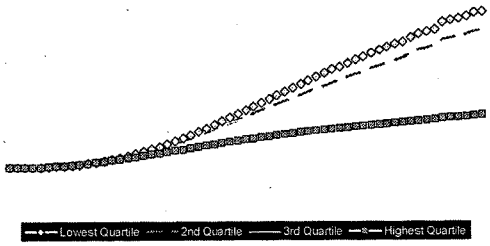
Defaults of subprime mortgages are also strongly negatively correlated with home price growth rates



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High HPA rates played major roles in good performance of subprime mortgages in past few years

As shown above

- Mortgages located in the quartile of MSAs with lowest home price growth have been three times as likely to default as those in the quartile of MSAs with highest home price growth
- Generally, MSAs with double-digit home price appreciation rates have been experiencing loss severity ratios less than 20%, many such MSAs had loss severity ratios less than 10%
- At the same time, MSAs with home price growth rates below 5%, on average, had loss severity ratios around 40%
- A majority of mortgages originated in the past few years are in areas with double-digit home price appreciation rates
- If home price appreciation rates slow-down to 5% p.a. for MSAs currently having double-digit rates, losses (both defaults and severity ratios) may increase substantially in these MSAs

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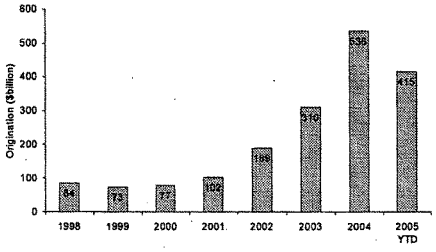
HEL ABS sector has been experiencing fast growth in recent years



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Most top issuers are not regulated banks

Top 10 originator-issuer in 2004

Rank	Name	2004 Volume
1	Ameriquest / Argent	55.126
2	Countrywide	40.602
3	Lehman Brothers	27.336
4	GMAC-RFC	25.988
5	New Century	22.306
6	First Franklin	19.522
7	CSFB	18.152
8	Option One	17.528
9	Fremont	15.294
10	Washington Mutual	13.928

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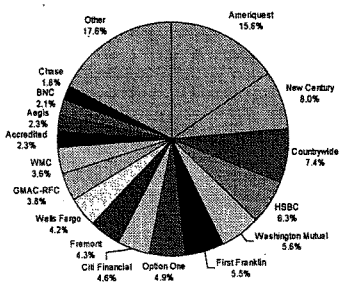
Top subprime mortgage lenders in 2004



Source: Inside Mortgage Finance Publications

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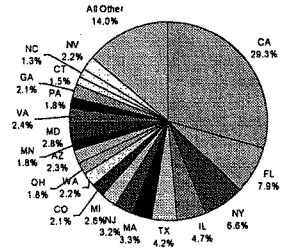
Subprime mortgages originated in 2004 by state



Source: Loan Performance
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Loan characteristics from major issuers' recent deals

Issuer	ARM %	Type	Loan Size ($)	WA FICO	FICO <560	WA CLTV	CLTV >80	IO	Piggy-back	Super States[4]	Low/No Doc	Invest
Ameriquest	82.1%	ARM	169,788	600	28.2	78.0	46.9	1.3	0.9	34.3	29.6	3.7
		Fixed	166,490	679	4.2	76.1	43.0	0.9	1.1	34.3	16.4	4.7
Argent	78.3%	ARM	187,054	603	25.3	85.3	66.4	0.0	10.2	43.6	50.7	8.6
		Fixed	168,356	632	10.6	78.2	44.4	0.0	5.3	53.2	26.1	5.3
Countrywide	81.6%	ARM	189,860	607	22.4	84.1	54.5	34.8	18.5	45.4	39.3	2.1
		Fixed	174,620	607	20.4	75.4	34.0	9.5	7.1	49.7	29.0	2.2
First Franklin	89.2%	ARM	206,112	654	2.9	91.7	76.5	52.8	16.9	43.9	29.7	1.8
		Fixed	140,583	652	3.8	89.6	71.3	6.4	4.0	23.8	37.8	0.6
Fremont	88.6%	ARM	225,643	618	19.4	84.5	63.8	21.7	41.0	43.9	35.8	7.9
		Fixed	217,161	629	10.8	76.9	40.7	0.0	12.1	38.7	29.8	6.6
Long Beach	91.3%	ARM	210,158	634	12.1	91.1	77.2	28.4	53.9	53.3	37.6	6.9
		Fixed	144,849	657	5.3	81.0	43.1	0.0	25.0	36.8	37.9	21.0
New Century	86.4%	ARM	206,019	622	17.5	86.0	67.8	22.4	25.5	52.3	53.2	9.3
		Fixed	155,331	628	11.8	76.5	38.8	0.0	8.1	46.2	35.6	6.8
Option One	69.8%	ARM	177,223	605	25.6	79.9	44.3	7.2	9.7	33.3	39.3	7.0
		Fixed	155,631	631	10.8	78.2	40.4	1.0	5.2	25.4	29.5	6.3
Park Place	80.6%	ARM	178,112	606	28.5	85.5	67.4	0.9	13.1	41.4	52.9	10.3
		Fixed	168,769	633	14.6	78.0	41.9	0.2	4.9	53.9	27.9	7.3
WMC	88.9%	ARM	248,523	636	10.9	83.9	45.4	30.1	14.6	66.6	52.0	5.1
		Fixed	188,502	641	7.4	78.4	39.5	0.0	4.5	50.2	41.2	7.6

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Typical home equity deals from major issuers

		Ameriquest	Long Beach	New Century	RASC
		2005-R1	2005-1	2005-1	2005-KS1
Collateral	ARM %	81.36%	92.49%	81.57%	88.89%
	Average Balance	$173,130	$201,277	$187,239	$145,161
	WAC	7.65%	7.07%	7.06%	7.16%
	WA CLTV	78.96%	90.00%	84.47%	83.42%
	WA 1st Lien LTV	78.83%	80.51%	80.54%	80.53%
	Piggyback	0.98%	49.95%	20.62%	16.12%
	% CLTV >80	58.69%	84.12%	72.64%	73.82%
	WA DTI	41.28%	40.68%	40.62%	NA
	% DTI >40	65.35%	53.86%	61.16%	NA
	Owner Occ.	94.72%	91.25%	91.76%	94.38%
	% CA	18.47%	40.92%	37.92%	15.20%
	Avg. FICO	619	631	623	609
	IO%	0.00%	21.62%	16.97%	7.66%
Subordination	AAA	18.50%	19.80%	19.60%	19.50%
	AA	13.15%	12.40%	13.60%	12.75%
	A	7.75%	7.65%	8.15%	7.60%
	A-	6.75%	6.45%	7.05%	6.10%
	BBB+	5.20%	5.45%	5.55%	4.75%
	BBB	4.30%	4.45%	4.40%	3.55%
	BBB-	3.10%	3.45%	3.20%	2.55%

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Where do 2004 and 2005 vintage Baa3 tranches stand compared with performance of past vintages?

Historical Cumulative Net Loss Rate
as of May 2005

Vintage	ARM	Fixed Rate
2004	0.04%	0.06%
2003	0.41%	0.41%
2002	1.18%	1.40%
2001	2.69%	3.38%
2000	4.76%	5.27%
1999	5.33%	5.73%
1998	6.36%	5.63%

Average Baa3 First-Dollar Loss Rate
(Life-time cumulative net loss rate at which the Baa3 tranche starts to incur osses)

Vintage	FDL Rate
2004	7.76%
2005	7.35%

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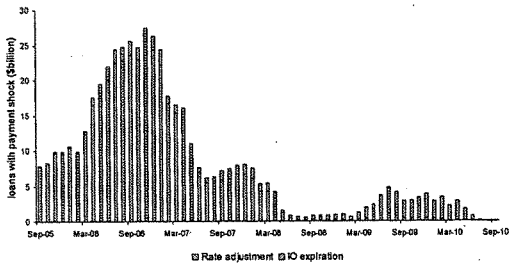
Nearly $440 billion subprime mortgages will be experience payment shocks in the next 3 years



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U.S. Residential Mortgage

Single family mortgages
- mortgages on single family (detached) houses
- not included: condos, town houses, co-ops, buildings with more than 1 units, commercial properties, etc.

2-4 family mortgages
- mortgages on residential buildings with 2 to 4 family units

Multi-family mortgages
- usually considered as commercial mortgages

Other residential mortgages
- condos, town houses, co-ops, etc.

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The US Residential MBS Market

Agency mortgages are mortgages that are in Ginnie Mae, Fannie Mae and Freddie Mac programs.

Typical Fannie Mae / Freddie Mac requirements

- balance limit: $359,650 for 2005 (single family house)
- loan priority: must be first-lien
- debt-to-income ratio limit:
  - 28% for mortgage debt
  - 33% for total debt
- cash-out not above 75% LTV (if refinance)
- loan-to-value ratio limit: 95%
- credit history: FICO score at least 720

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Residential Mortgages (continued)

- Conventional loans: fixed rate loans in Fannie Mae and Freddie Mac programs
- GNMA loans are not available to the general public
- Jumbo mortgage: a prime loan with a balance higher than the agency limit.
- Prime mortgages: mortgages that are either agency mortgages or jumbo mortgages.

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Profile of traditional home equity product

- Low balance
- Second or third lien
- Credit score above 680
- Usually a refinancing to take out cash
- 15-year maturity (or shorter)
- Combined loan-to-value (CLTV) ratio less than 100
- Include home equity lines of credit (securitized separately)

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Subprime (a.k.a. B&C) mortgages

- Often a first lien mortgage
- May be purchase, cash out, etc.
- May be used for cash-out purposes or debt consolidation
- Typical LTV around 80, may reach 100
- Often have piggy-back second lien loans
- Includes FHA Title 1 loans and other home improvement loan products

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Products that may be riskier than traditional home equity/subprime mortgages have become popular

Because of the continued faster pace in home price appreciation compared with wage growth, lenders have developed a number of products to enable borrowers to qualify for mortgage payments and/or to pay minimal down-payment

- IO mortgages
  - Loan only pays interest in the IO period (usually 2 to 5 years)
  - At the expiration of the IO period, loan converts to fully amortizing loans
  - Payment shock at the expiration of the IO period may cause defaults to surge
- Silent second mortgages
  - A simultaneous pair of first and second lien loans are made at the origination (usually 80% LTV for the first lien and 10 to 20% LTV for the second lien)
  - Borrower pays little or no down-payment
  - Only the first lien mortgage shows up in a securitization and LTV appear to only be 80%. But the borrower's tendency to default is much high than a true 80% first lien mortgage.
- Option ARMs
  - Allow borrower to pay exceedingly low initial minimum payments
  - Indexed on moving Treasury average (MTA), LIBOR or COFI-11
  - Likely to have negative amortization
  - Recast of schedule at 5th anniversary may potentially cause significant payment shocks
- Stated-income mortgage loans
  - Income of the borrowers is not substantiated by the documentation, nor is it verified
  - Borrowers may inflate income to get loan approved
- 40-year mortgages
  - Lengthened amortization schedule to make monthly payment smaller
- High debt-to-income ratio loans
  - DTI for these loans may reach beyond 50%, leaving little for the borrower to pay other expenses

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Footnote Exhibits - Page 0899

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Subprime mortgagors

- Demographically, this borrower is "middle America"
- Financially, this borrower
  - Has mismanaged his finances (past delinquencies, foreclosures or bankruptcies, low credit score)
  - Used excessive leverage (high DTI and/or LTV)
  - Is cash-strapped (large amount of cash-out refi.)
- While "riskier" than prime and jumbo borrowers, subprime borrowers
  - Are not directly impacted by stock market gyrations
  - Live in homes that are more liquid, less volatile

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The channel of mortgage lending

- There are three major channels of lending mortgages
  - Retail – Loans are originated in branches of the lender. The lender controls most aspects of underwriting, including credit checking, income verification, appraiser selection, appraisal quality control, etc. The originator is more likely to have local market knowledge
  - Whole-sale – Loans are originated by brokers who have regular business relationships with the lender. The lender may have an approval process in accepting a broker to its network and may monitor the performance of a broker's origination. The lender controls some aspects of the underwriting process but relies on the broker to do others.
  - Correspondence – Loans are originated by non-affiliated brokers according to the lenders underwriting matrix. The lender is likely to re-underwrite the loan in most aspects.

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Income documentation and verification

- Full documentation, full verification
  - Last 2 years' W2s
  - Last 2 months' pay stubs
  - Letter from employer (verified by call)
  - Last 2 years' income tax returns (self-employed only)
  - Last 2 months' bank statements (verified by call)
- Partially (limited, light) documentation
  - Some of the documentations are deficient but usually one of income or employment proofs is available
- No income (stated income), no verification
  - Nothing is available

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Appraisal process: the V in LTV

- Most used form of appraisals
  - Full appraisal (1004 appraisal)
  - Drive-by appraisal (2055 appraisal)
  - Broker price opinion (BPO)
  - Automated valuation model (AVM)
- Appraisers are paid on the case load, not value of the property
- Most of appraisers' business come from lenders
- Many lenders also employ in-house appraisers to control the quality of appraisals
- Even for purchase loans, an appraisal is needed to mitigate the risk of fraud

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Business models of subprime lenders

- Balance sheet lending
  - Pure lending on the company's own book is very rare for major lenders
- Whole-loan sales
  - Newer lenders mostly rely on whole-loan sales to dispose loans
  - Established lenders often engage in whole-loan sales when they see opportunities
  - Whole-loans sold will most likely be securitized by the buyer
- Securitization
  - Securitization are used for many purposes, the most common among them
    - Lower cost of funding
    - Raise leverage
    - Release regulatory capital
    - Managing risk

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What do credit ratings really mean?

- Most common approach by rating agencies
  - Establish a set of base case assumptions
    - Default (foreclosure) frequency
    - Loss severity ratio
    - Prepayments
    - Interest rate scenario
  - Establish AAA class stress assumptions
    - Default frequency for AAA, depend on the type of loans, may be 4 to 10 times of the base case
    - Moody's uses simulations to decide AAA credit enhancement (bonds should have no losses in 99.5% or more of the simulated cases)
    - Committee decisions are mostly involved in deciding the C/E

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What factors are used in deciding assumptions?

- Factors used in determining the base case assumptions include:
  - Borrower characteristics (income, credit history, etc)
  - Loan characteristics (LTV ratio, term, property type, purpose, occupancy, MI, etc)
  - Pool characteristics (concentration, etc)
  - Originator and servicer practices and loan programs
  - Macro and local economic consideration (employment, real estate market, etc.)

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Moody's typical loss severity assumption

Rating Level	Loss severity percent
Aaa	60.0%
Aa	55.0%
A	50.0%
Baa	45.0%
Ba	42.5%
B	40.0%

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Other issues rating agencies consider

- Mortgage insurance
  - The presence of MI will reduce loss severity
  - Rating agencies generally assume that the servicer won't be able to collect 100% of claims. A "haircut" is made to the mortgage insurance
  - Haircut is made according to the rating

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Over-collateralization: the most basic credit enhancement

- A deal is over-collateralized when
  - The balance of the pool is larger than the aggregate balance of the bonds
  - Collection proceeds are first used to pay bonds' interest and principal
- Most mortgage ABS deals use some form of over-collateralization to enhance the credit for
  - Bondholder
  - Insurer
- The exceptions are
  - Whole-loan deals issued by GSEs
  - Some deals with issuer-guaranteed classes
- OC can be viewed as a special tranche that is the first loss piece for the deal

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Subordinate bonds act as cushion against losses

- In a senior-sub structure, in each period, senior bonds have the priority in
  - Interest payments
  - Principal payments
- Sub bonds' interest payment may or may not have priority versus senior bonds' principal payments

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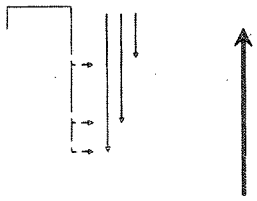
Typical home equity ABS structure: sequential with cross-over, OC turbo and step-down



- In the first few years, principal are paid sequentially among senior, mezzanine and subordinate tranches
- OC can be built up from the initial level by using excess spreads to pay down principal of bonds
- After the cross-over date, mezzanine and subordinate bonds start to receive principal simultaneously with senior bonds (provide no trigger event occurs)
- After the step-down date, part of OC is released (provided no trigger event occurs)
- An optional redemption (clean-up) call allows the servicer to call the deal when the collateral pool is below 10% of the original size.

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Deals with multiple collateral groups: Y-structure

- A deal may have more than one group of collateral, each supporting its own sets of bonds
- Lower classes (or O/C) may receive cash from entire pool
- This structure enables the better performing group to aid the worse performing one
- Triggers are more complicated

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Available funds cap: definition

- Maximum net WAC caps the coupon paid to bondholders
- Net WAC is gross WAC minus
  - Servicing fee
  - Trustee fee
  - Insurance premium (if any)
  - IO payment (if any)
- Designed to prevent bonds from defaulting because interest mismatch (as opposed to collateral performance)
- Capped-out amount is carried forward and may be recouped in the next month

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66050.162

Greg Lippmann To: "Richard Axilrod" <richard.axilrod@moorecap.com>
cc:
Subject: Re: Daily Update

08/26/2006
01:06 PM

Hear what you are saying and in a normal market your logic would be inarguable, but the demand for this crap is virtually entirely technically driiven, all cdos. And each person at the cdo table thinks someone else is the fool - cdo equity, ostensibly only two buyers one mutual funds in australia, hard to call them smart money, and one hedge fund in chicago, magnetar; who is actually putting on a bearish correlation trade; bbb sold mostly ponzi-like to other cdos with limited distribution in europe and asia (we sold our first BBB in thailand this week) again hard to call that smart money. Aa and Junior AAA sold mostly to high grade cdos and to a certain extent european and asian banks and lastly the senior AAA, this may ultimately break the cdo market. In 05 for a time, we sold EVERY SINGLE one to AIG. They stepped out of the market in march of 06 after speaking with me and our research people (and I don't doubt other dealers). Since then it has been more hit and miss for us. Sometimes we sell to European banks but often (and for the last 3 deals) we are forced to put it into our commerical paper conduit at 26 over. A correlation model would value this significantly wider. Why have we done this? It is not without reluctance and we are looking for ways to get out of this risk, but for now the view has been, we like the fees and the league table credit (and dammit we have a budget to make) and as the cp is a non mtm vehicle we can take some of this without caring that we are being picked off. That, at least at DB is nearing its end and from the guy at a delaer prop desk who we pitched yesterday on taking it, seems to be happening at other shops. He approached us in may with less than thrilling terms and we told him to pound sand. We asked him yesterday and he said we "were the tenth dealer to ask him in the last two weeks". As this piece is 65% of the cap strucutre, a move of 10 bps on this would take 1.3% out of the equity return. But the bigger question than spread is capacity for us to take this risk. If this crap all blows this 'super senior' could easily be worth. 60 cents on the dollar if not 10.

Another potential pin for the bubble would be a signifcant shift in enhancement levels either for cdos or home eq abs which could come due to continued housing news causing pr pressure on the agencies.

All that said, I do hear what you are saying and it is possible your view would/will be proven correct should the fundamentals of housing and abs trading continue to diverge.

On the other hand in regards to our/my view, I am encouraged that in spite of the virility of the cdo bid, there are numerous examples of bonds blowing up -- amsi 03-8 mv6 at 66, lbmlt 03-3 m4 at 30 oomlt 04-1, one bid 90 that tried to fade and us and 3 others at 85 (note option one is a top 5 name in abs) the tripling of serious deling in sabr 05-op1 to over 6.5% since feb even though the avg mortgage age is now only 21 months ie hasn't reset yet, ace 06-fm1 m9 trading in a 275-325 market as more or less a new issue. What I'm saying is that there is plenty of fundamental evidence that bonds are blowing up even as the new issue and index market are remaining buoyant.

Sent from my BlackBerry Handheld.

----- Original Message -----
From: "Richard Axilrod" [richard.axilrod@moorecap.com]
Sent: 08/26/2006 11:41 AM
To: Greg Lippmann
Subject: RE: Daily Update

between now and december all measures of housing inflation go negative. if this thing doesn't work by year end it isn't

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1307

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66050.163

going to

From: Greg Lippmann [mailto:greg.lippmann@db.com]
Sent: Friday, August 25, 2006 06:20 PM
To: Richard Axilrod
Subject: Re: Daily Update

Single Names Recap

Slow but not inert. 200MM in CDO ramp ups probably less than 100MM traded. There were 2 OWIC of hedge funds getting short. 50 MM of good Baa3 bonds, which traded between 190 and 220. Another of weaker 2006 names. These traded as wide as 325 and as tight as 260. We traded about 100MM all in private non comp situations except we did the 325 on the crappy 06 bond.

Index
Fairly active day for us with over 300MM in volume. There was some selling on the H and R Block / Option One News, but there were a few CDO rampups that were pre-hedged by buying the index (to protect the spread arb they buy the index now and if spreads tighten they have a profit on the index to replenish the lost arb from tighter spreads and if they widen the CDO arb is better offsetting the loss on the index trade) and as a result the index rallied 4-5bps.

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[redacted] = Redacted by the Permanent Subcommittee on Investigations

Greg Lippmann/NewYork/DBNA/DeuBa

08/24/2006 07:41 PM

To "Richard Axilrod" <richard.axilrod@moorecap.com>
cc
Subject Re: Daily Update Link

Daily Update
Single Names
Among the busiest days in the year with 6 official CDOs ramping up and numerous ones privately looking for collateral. We showed bids to 10 different CDOs and traded with 7 of them, total volume roughly 100MM . Continued tiering evident with the tightest names holding firm or tightening (a few seemed to widen 5 bps though in Baa2) with certain other weaker names actually widening out even with the robust volume. BBB- was in general stronger than BBB. There were also hedge funds looking to get short and we sold protection on 135MM to 3 accounts.

Similar to yesterday, another weak bond came out – OOMLT 04-2 M6 for which we bid 85 for and think traded around 90. Interestingly, Option One is considered among the very best names and the 04 collateral, due to robust home price appreciation, a fantastic vintage.

Tomorrow there are two CDOs ramping up but we'd expect the day to be relatively quiet.

Index

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Yesterdays gap higher held as the market rallied roughly another basis point. Today was not quite as active as yesterday.

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Greg Lippmann/NewYork/DBNA/DeuBa

To "Richard Axilrod" <richard.axilrod@moorecap.com>
cc
Subject Re: Daily Update Link

08/24/2006 07:52 AM

Single Names

thursday preview
6 cdos looking for a total of 650MM today, if current trends persist, less than 325MM will actually trade. This is the first day this week with robust cdo demand. The beast is clearly not dead.

wednesday review:
only one cdo attempted to ramp today. we trade one bond with them, a sast in the low/mid 200s. We traded another 50MM with a few CDOs off market. We did not do any trades with the one large shorter who was in comp, but we had two of our guys come in to add to their trades for a total of 75MM. Also to show that this stuff can and does blow up, AMSI 03-8 MV6 was on a list from a CDO manager. We were the high bid at $66 but they did not sell as the investors in the CDO certainly don't realize the market on the bond and selling it would not only alert them, but also would cause some CDO triggers to fail shutting the equity off from cashflows.

Index
Wednesday
trememdous volume in the morning but flows were balanced and the market was largely unchanged...in the afternoon one large buyer came in lifting and the market rallied substantially, though two way flows were strong in the afternoon the market held it's gains and closed 5-6 tighter. We traded nearly 1BB on the day.

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Greg Lippmann/NewYork/DBNA/DeuBa

To "Richard Axilrod" <richard.axilrod@moorecap.com>
cc
Subject Re: Daily Update Link

08/23/2006 11:00 AM

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8/22 Recap
Single Names

Monday
Extremely slow with virtually zero CDO activitiy. We did see one dealer prop desk do a large offer wanted (i.e. they bought protection / got short risk). We did a handiful of private trades both sides.

Tuesday
We did two large off market trades with CDOs, one for 80MM and the other for 200MM. In a similar manner we had 80MM shorted (protection bought) to us two hedge funds, making us 200MM shorter on the day.

Thus far wednesday sees only one CDO publicly looking for 50MM while one hedge fund is looking to short 120MM in comp. Note there are also about 200MM of cash bonds for sale today some of which are CDO looking to extend duration by selling seasoned bonds and buying new issues .

Index

Monday - Very slow, dealers still seem to be pushing the market lower. BBB- about 2 bps wider
Tuesday- Volume continues to be largely dealer to dealer. Traded lower in the morning but rallied a bit in the afternoon. Closed roughly flat. We are starting to see retail interest in trades between the two series or between different ratings.

Greg Lippmann/NewYork/DBNA/DeuBa

08/18/2006 05:27 PM

To "Richard Axilrod" <richard.axilrod@moorecap.com>
cc
Subject Re: Daily Update

8/18 cds recap
BWICs slow day just a few cdos attempting to ramp about 200MM wed bet less than 100MM traded 0that way. One hf attemped to short 150MM on owic. We taded some stuff in comp on boths side and also did a bunch of trades out of comp with cdo guys and hfs. Traded with two new equity hedge funds who I had pitched last week, each shorted us about 50MM mix of baa2 and baa3. Shorts to us were Baa2 from 110-155 and baa3 from 215-255.

Our total volume about 200MM.

ABX Flows:
**Mkt weaker by abt 2bps in BBB-s.
**Mkt was pushed lower by one dealer selling in size in the street.
** We did see retail buying around the 100-06/07 area in the BBB-.
**We saw some hedgies (whole loan traders, ARM traders) sell the index to hedge
---
Sent from my BlackBerry Handheld.

----- Original Message -----
From: "Richard Axilrod" [richard.axilrod@moorecap.com]

VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 00168 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

66050.166

Sent: 08/17/2006 07:41 PM
To: Greg Lippmann
Subject: RE: Daily Update

i don't get the first snetence. the initials make no sense to me, but i would infer that the creators of cdos are buying protection?? are they always long the equity part?

From: Greg Lippmann [mailto:greg.lippmann@db.com]
Sent: Thursday, August 17, 2006 07:16 PM
To: Greg Lippmann
Cc: Richard Axilrod
Subject: Re: Daily Update

Richard,
8/17
Single Names
In publicly announced BWIC and OWIC we saw for the first time in memory more people looking to short CDS than to go long. The publicly announced attempted volume of CDO rampup was roughly 350MM, while on the short side it was 300MM (less volume but more people). On BWIC, very few Baa2 traded as the arb really doesnt work. In Baa3 the range was 185 to 225 depending on the name; again very few traded. We'd estimate less than half and perhaps less than 100MM of the 350MM traded. On the OWIC side the names selected were among the worst names in the market and we think little traded with many names being offered at 500 or wider. Off bid lists we worked with both CDO managers and hedge funds to do trades in specific names that fit our or their axes. Net net we got shorter by about 100MM evenly split between BBB and BBB- with a total volume of trades this way of roughly 300MM.

Index
Flows were verly light. Morning the market widened a bit and in the afternoon there was a small rally. On the day index 2 was unchanged as was BBB- of index 1. BBB of index 1 was down 1/32.

I may take tomorrow off but will be available on blackberry and cell phone but may not write an end of day summary. I will continue it next week.

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[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

Greg Lippmann/NewYork/DBNA/DeuBa

08/16/2006 06:13 PM

To richard.axilrod@moorecap.com
cc
Subject Daily Update

Single Names:
Today there was 5 cdos ramping looking to get 500MM of collateral. Top tier names seem to have stopped trading as the

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arb for them no longer works. Less than 50 % of the lists traded, thus we would guess in the absence of orders the street got shorter by 200MM via bid lists (we were shorted about 250MM from 3 hedge funds and privately shorted about 100MM to 3 cdos not on bid lists and also traded some bonds on the lists net probably we are a bit longer, really less short and still more than 1BB). Nearly the entirety of the volume was in mid tier names which tended to trade from 100 to 126 for Baa2 and 200-242 for Baa3. Anecdotaly, we continue to see the weakest names trading wider while the best ones stay flat or tighten in a bit with the mid tier ones a bit messier.

Here is a list of names we sent to one hedge fund who traded 10MM of the 6 highligted ones with us at the included levels.

[attachment "diverse basket august 15.xls" deleted by Greg Lippmann/NewYork/DBNA/DeuBa]

Index:

Over the last week the BBB and BBB- are wider by about 10 and 20 bps respectively from the tights. Similar to the rally which seemed to us to be on very small volume and driven by dealers covering their single name shorts into CDOs by lifting street offers, the decline in index prices has been on limited volume. There has been some hedge fund selling of the index but its been more limited than it had been the last few weeks, potentially an ominous sign should their interest become piqued aney. Thus the main driver behind the decline has been a lack of dealer sponshorship indicating perhaps that dealers are comfortable with the current state of the positions. We did see larger movement spost the housing numbers of the last two days than we had seen after previously similar negative economic numbers. We did see a few fast money accounts come in to cover a bit at the days lows.

abx 2

	market	spread	day change
BBB	100-7 / 13	127/121	-4/32
BBB-	100-5 / 11	237 /232	-10/32

abx 1

BBB 100-23 / 29 132/126 -2/32
BBB- 101-5/11 231/225 - 6/32

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Footnote Exhibits - Page 0920

From: ROCKY KURITA (DEUTSCHE BANK SECURI) <ROKURITA@BBOTG>
Sent: Thursday, May 12, 2005 7:08 PM
To: GREG LIPPMANN (DEUTSCHE BANK SECURI) <GREGLIP@BBOTG>
Subject:

Message Sent: 05/12/2005 15:08:14
From: ROKURITA@BBOTG|ROCKY KURITA|DEUTSCHE BANK SECURI|1726|328663
To: GREGLIP@BBOTG|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663

look. i know you think that i am an idiot and do not know how to trade in a bear market. i do not overestiamte the illiquidity in the market. i provide liquidity to investors b/c we have to support the larger franchise. i understand how the markets move. i got smoked in mmt and you seem to think that that i ahve not learned from my mistakes. we have to make money. customer happiness is a secondary goal but we cannot lose sight of the trading desks other role of supporting new issue and the customer frnachise. if we get hit, i will hit back bids to cut my losses. i am not a stubborn mule. here are the generic levels of wher we bid cash: a3 +80/75, baa1 +130/125 baa2 +140/135 baa3 +200/190

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Wall Street & The Financial Crisis
Report Footnote #1308

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66050.170



GREGLIP@bloomberg.net
02/01/2007 04:09 PM

To WBrown@Braddockfinancial.com
cc
bcc
Subject RE: FW: Spread Widening Commentary Part 2

=====Begin Message=====
Message#: 7592
Message Sent: 02/01/2007 16:09:32
From: GREGLIP@bloomberg.net|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
To: WBrown@Braddockfinancial.com| | | |
Subject: RE: FW: Spread Widening Commentary Part 2

there are very few abs people on this loop as i dont want to scare the buyers of abs / cdo managers...i only send this to harvey b/c he is a personal friend...please please do not foward these emails outside of your firm...i do not want to be blamed by the new issue people for destroying their business...we will trade on 75 names..
----- Original Message -----
From: Wyck Brown <WBrown@Braddockfinancial.com>
At: 2/01 16:06:33

I'd definitely like to get your commentary...no complaining.

Brandon's last name is "Jundt" and I've cc'd him on this.

Bloomberg is probably best for both of us.

I'll get some names over as soon as I can. How many of the 125 names do you ultimately narrow it down to?

Harvey definitely listens to you and I don't know of anyone in this market whose opinion he values more highly. I think he likes to hear why I like any trades I do for Galena Street (I have to justify my paycheck), even if he already believes it is a good trade.

-----Original Message-----
From: greglip@bloomberg.net [mailto:greglip@bloomberg.net]
Sent: Thursday, February 01, 2007 1:58 PM
To: Wyck Brown
Subject: Re: FW: Spread Widening Commentary Part 2

good seeing you too.do u really want to be on my loop of negative news ?? only
if you promise not to complain about how many negative stories i send out which
are inconsistent with your worldview. if you still do, what is brandons last
name / email and do u guys prefer on bloomb erg or email ? we can send you the
net pnl of a trade that someone else did...i think if you pick 125 names i
promise that i will give you my view on the ones that work best that also fit my
book....as for harvey i am confident that if i tell harvey it is a great trade,
he believes me, no?
----- Original Message -----
From: Wyck Brown <WBrown@Braddockfinancial.com>

onfidential Treatment Requested by DBSI

Permanent Subcommittee on Investigations
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Report Footnote #1309

VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 00173 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

66050.171

At: 2/01 15:52:21

Greg, it was good to see you at ASF..I'd like to get the earlier publication you mention here and would very much appreciate it if you could add Brandon and my names to your commentary emails.

Brandon and I are putting together a list of names for the correlation trade. Can you show me an example, in terms of marks and profitability of what the trade would have looked like if we had put it on last September and kept it on till today? It will help me discuss the idea with Harvey in terms of $'s and cents.

Any suggestions you might have regarding that particular trade before we actually put it on, I'd appreciate discussing with you.

Thx.

-wyck

-----Original Message-----
From: harveyb@bloomberg.net [mailto:harveyb@bloomberg.net]
Sent: Thursday, February 01, 2007 1:36 PM
To: Wyck Brown
Subject: Fwd: Spread Widening Commentary Part 2

1
---- Original Msg from: GREG LIPPMANN, DEUTSCHE BANK SECURI At: 2/01 12:52:15

Here are some of my additional thoughts on the continued widening of the basis
between the abx and the single names.
Recently, I wrote in detail about this. If you don't have that and/or would like me to resend, please let me know. Here are some additional thoughts on this topic. As this basis continues to widen it is being driven by three things, fewer accounts looking to speculate in the indexes
from the long side given the price action (while at the same time, single
name cds demand to sell protection has not ebbed as the new issue cdo market remains robust) and it would seem increased dealer shorts for a trade or to hedge various wharehouses (cdos, residuals, whole loan pipelines etc). Most importantly perhaps though is the abs trading desk realization and unwillingness to take on an unpleasant single name / index
cds basis. As dealers buy protection on single name abs from cdos, typically they sell protection on the index. As most credits of the hundreds of mezz abs deals done in late 05/06 can be more or less 'mapped'
to specific index credits, we can assume for illustrative purposes that the only single names that exist are these 20. Let's say a dealer wants to
be flat abs risk and they have just sold protection to a hedge fund on the
06-2 BBB-, they will attempt to buy protection on each of the index constituents from cdos. 06-2 (06-1 and 07-1 are similar) is composed of 5
very tight credits that are in constant demand from cdos, 10 reasonable credits and 5 credits that are virtually shunned by cdo managers. Thus

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the
dealer will find that he is unable to buy protection on these widest
names
and will need to be long risk or flat risk but relative to the
composition
of the index, be short risk on relatively good names and long risk on
the
weak ones. As the basis between the worst 5 credits and the rest of the
market has continued to widen, dealers have become increasingly
reluctant
to sell protection on the index because it is tantamount to selling
protection on names for which they would not eagerly offer single name
cds
protection.

Does this mean that investors should buy protection on the index. In a
word, no. Buying protection on the index does get an investor 20%
exposure
to weak names that they would have difficulty shorting in the single
name
market, but the cost to this is two-fold: 1 - they also implicitly are
buying protection on the 20% of the market that trades tightest and on
which they might avoid buying protection. And, given the aforementioned
dealer reluctance to sell protection on the index, the basis between
where
we would offer protection on all the single names in the index compared
to
the index level has widened as well. Thus one can buy protection on
single
names tighter than buying it in the index and pay less total carry while
retaining the substantial cheapest to deliver optionality of the single
names. We think an even better way to play this is to avoid the 5 best
and
worst names and one can get the trade done at an even tighter level to
the
index. Ignoring only the 5 widest bring the index/single spread to well
over 100bps.

This is because when we say you can buy protection on all 20 names x bps
tighter than the index, we are really saying you can buy protection on
each single name at a different level such that the average is an
attractive level compared to the index. Reading between the lines, we
are
making some bonds much tighter than the index and others much much
wider.
Further the bid ask on the widest ones, given our relative inability to
place them in cdos may be 100 or more bps. Thus if one was quoted say a
700-900 market in a bond, one might never consider trading that name,
but
in essence by buying protection on the index instead of a group of
reasonable single names, that is what one is doing.

A final thought on the index vs single name. As the index market has
undergone substantial price declines, while cdo volumes have remained
high, the liquidity in the abx has dripped dramatically compared to the
single name market. At best screen markets are generally half point and
in
many cases are a point, this is roughly the same as the single name
market
for most credits. Further while the index market levels work for
10-25MM,
we have recently seen markets move 1/2 to 1 pt on very small volume.
In single names, we are comfortable showing levels on say 20 single name

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credits where our quotes work for 5-20MM per name and 250MM total block trade (we have done even larger trades).

In sum, the widening in the single name market has been less than the more heralded move in the index and a convergence of this basis could occur while at the same time we remain convinced of the long run relative
attractiveness of being long single name protection over index protection
and the potential for excess returns from picking a more sensible basket of names than the highly divergent composition in the indexes.

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Shorting Home Equity Mezzanine Tranches

A strategy to cash in on a slowing housing market

February 2007

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1314

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Summary

- Investor expresses a bearish view on the subprime US RMBS market (or the US Consumer or US Home Prices) by shorting (or buying protection on) selected Home Equity ABS credits
- We believe this product is the most efficient way to express these views; more efficient than shorting stocks of homebuilders, REITs, the S&P 500, etc. We are interested in hearing of other ideas
- Since 2003, spreads for Baa3 and Baa2 have compressed. But if anything, risk of a housing bubble / defaults has only increased with the continued proliferation of alternative mortgage products such as IOs, silent seconds, stated-income loans and option ARMs. These products have become quite popular as home price increases until very recently outstripped wage growth. The percentage of subprime mortgages originated that were IO mortgages grew from virtually zero in 2002 to around 30% in 2005 and 2006. The percentage of subprime mortgages originated that were stated-income mortgages grew from around 25% in 2000 and 2001 to over 40% in 2005 and 2006. Mortgages with 40 or even 50-year terms were recently introduced, and have quickly become popular in subprime lending.
- After a brief widening near the end of 2005, spreads for Baa2 and Baa3 home equity bonds tightened for most of the first half of 2006, reflecting strong demand from CDOs. Demand from CDOs is a result of worldwide excess capital chasing yieldy products. Such demand, may prove elusive in an adverse market environment. Spread tightening lost its momentum in April, as the CDO's arbitrage has been squeezed. In fact, spreads gradually widened out from May to August. As the housing data has become increasingly bearish, this widening trend accelerated in September with Baa3 spreads nearly 100 bp wider than the April tights. After a brief rebound in October, spreads resumed widening again in November and December.

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Summary (continued)

- It is increasingly evident that the housing boom in the past 10 years has come to its end. The Market Index from the National Association of Home Builders showed a steep decline in recent months to a level that hasn't been seen since 1991, when the nation was experiencing a housing recession. Other indicators such as housing starts and building permits have also seen steep declines in recent months. New and existing home sales indices from the National Association of Realtors, which had experienced virtually incessant rises in recent years, also have lost their momentum and have even dropped in recent months.
- Though each deal has certain idiosyncrasies that on the margin make one deal better or worse, from a default perspective, the risk in the asset class remains a macroeconomic risk – e.g. all pools have thousands of loans and are geographically dispersed with similar credit scoring models and underwriting procedures across issuers with defaults ultimately driven by 3 things: home prices, interest rates (payment shocks and ability to refinance/move) and unemployment
- Historical data show that losses in subprime mortgage collateral are strongly negatively correlated with home price appreciation, both in default frequency and severity. In a scenario where home prices grow significantly slower than what has been seen in the past few years, especially in high growth states such as California and Florida, one may expect losses to be substantially higher than what has been experienced in the recent past. The result could be more dramatic should prices actually decline
- Rating agencies' rating models for subprime mortgage lending criteria and bond subordination levels are based largely on performance experience that has mostly accumulated since the mid-1990s, when the nation's housing market has been booming
- In a flat housing market, most subprime RMBS rated BBB- or BBB may come under severe stress. Dramatic spread widening, downgrades or even loss of principal and interest could result. Already there have been a few 2005 and 2006 deals either downgraded or placed on downgrade watch. Previously, rating actions on structured products within two years of their issuance were virtually unheard of.

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The downside and upside of shorting subprime mortgage mezzanine bonds

- In a scenario where subprime mortgages perform well
  - Prepayments are likely to be fast.
  - Very little extension risk
  - If the underlying Baa3 bonds has an weighted average life of 2 to 4 years and the premium is 250 bp, the protection buyer may lose 5 to10% (2.5% x 2 to 4) of initial notional amount.
- A reasonable worst case scenario would be somewhat slow prepayments, but no defaults in the underlying bond. In that case the protection buyer may lose 15% of the notional balance or 6 years of protection payments.
- In a scenario where losses for subprime mortgages rise to above 9%
  - Protection buyers are expected to have a profit of 50% to 100% of the initial notional balance, less the protection premium paid. Higher losses are needed for Baa2 shorts to reach these profits.
- In the meantime, if the spreads for mezzanine bonds widen
  - Protection buyers may choose to unwind the position with a profit
  - The price sensitivity against spread change for a typical at-the-money CDS is about $40,000 per basis points spread widening per $100 million dollar notional.
- The long-run payoff is arguably somewhere between 6 and 10 to 1. The odds against a default may be much less.

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The National Association of Home Builders Market Index has dropped to a level unseen since early 1991

Source: National Association of Home Builders

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Both housing starts and building permits indexes have seen declines in recent months not experienced since 1990

Source: US Department of Commerce
Data as of end of December 2006

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US Home price index in recent years has been above the long-term trend line

Source: Office of Federal Housing Enterprise Oversight, Deutsche Bank

Data as of end of Third Quarter 2006

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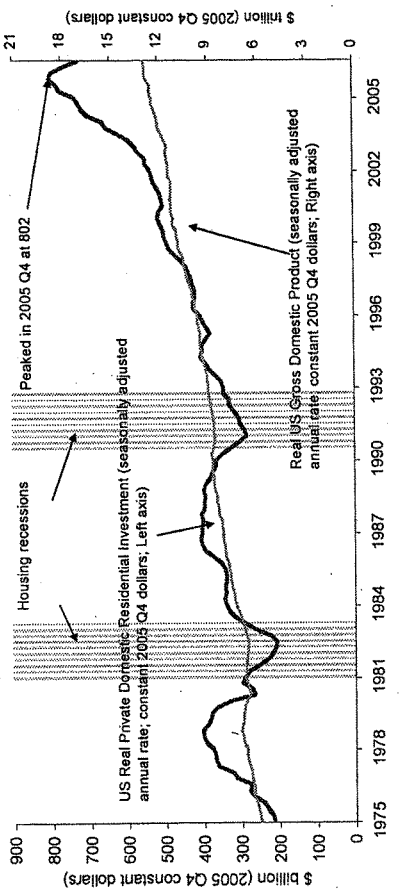
Investment poured into the residential market has dramatically increased during the last decade



Source: Bureau of Economic Analysis, Bureau of Labor Statistics, Deutsche Bank

Data as of end of Third Quarter 2006

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Generic new issue spreads for BBB & BBB- home equity tranches have tightened since summer 2003, but have widened somewhat in 4th quarter 2006

Note: Issuance of BBB- bonds was not common before 2003

Data as of February 2, 2007

Source: Deutsche Bank

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ABX.HE BBB and BBB- indexes have widened in the face of deteriorating fundamentals, more than generic spreads

Note: Issuance of BBB- bonds was not common before 2003

Data as of January 12, 2007

Source: Deutsche Bank

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Hyperactivity in mezz CDO issuance kept mezzanine subprime mortgage spreads tight in most part of 2006

Annual Issuance Volume for Mezzanine RMBS CDO

Source: MCM structured Finance Watch, Deutsche Bank

Data as of the end of 2006.

Issuance volume includes cash, hybrid and synthetic mezzanine RMBS CDO.

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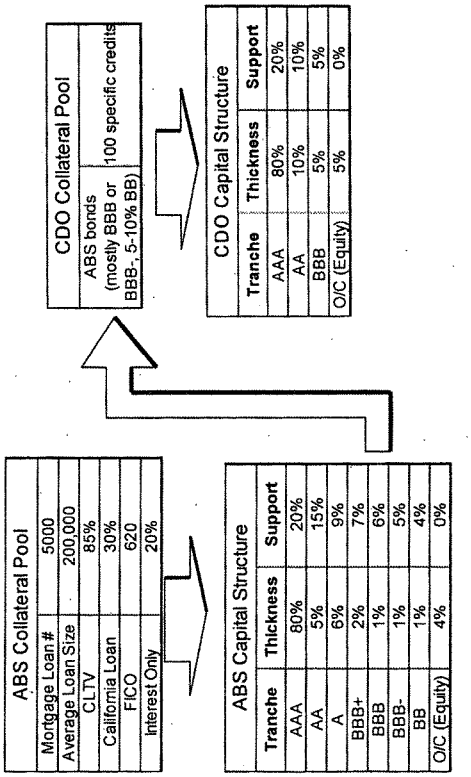
Typical ABS and CDO deal structures



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Historically, lifetime losses in subprime mortgages reached over 6%, even with the strong housing market

	Historical Cumulative Net Loss Rate as of December 2006								Initial % of Pool
Vintage	Dec-04	Mar-05	Jun-05	Sep-05	Dec-05	Mar-06	Jun-06	Sep-06	
ARM									ARM
2006							0.00%	0.02%	76.1%
2005			0.00%	0.01%	0.02%	0.04%	0.10%	0.18%	79.7%
2004	0.01%	0.02%	0.05%	0.10%	0.17%	0.27%	0.39%	0.53%	72.7%
2003	0.24%	0.34%	0.45%	0.56%	0.68%	0.81%	0.90%	0.98%	62.2%
2002	0.89%	1.05%	1.21%	1.39%	1.50%	1.67%	1.79%	1.82%	63.9%
2001	2.36%	2.55%	2.73%	3.14%	3.17%	3.34%	3.50%	3.63%	58.9%
2000	3.99%	4.35%	4.78%	5.17%	5.59%	5.77%	5.96%	6.13%	63.1%
1999	5.26%	5.45%	5.59%	5.74%	6.11%	6.41%	6.55%	6.59%	50.9%
1998	5.72%	6.27%	6.51%	6.63%	6.72%	6.78%	6.88%*	6.88%*	51.9%
Fixed Rate									Fixed
2006							0.00%	0.00%	23.9%
2005			0.00%	0.00%	0.01%	0.02%	0.06%	0.10%	20.3%
2004	0.02%	0.04%	0.07%	0.10%	0.14%	0.24%	0.39%	0.56%	27.3%
2003	0.25%	0.34%	0.44%	0.55%	0.65%	0.75%	0.87%	0.97%	37.8%
2002	1.11%	1.28%	1.46%	1.71%	1.86%	2.06%	2.22%	2.34%	36.1%
2001	2.89%	3.18%	3.42%	3.68%	3.87%	3.92%	4.11%	4.15%*	41.1%
2000	4.77%	4.89%	5.22%	5.43%	5.78%	5.91%	6.19%	6.52%	36.9%
1999	5.05%	5.35%	5.56%	5.64%	6.03%	6.09%	6.25%*	6.27%	49.1%
1998	5.56%	5.59%	5.68%	6.13%	6.33%*	6.48%*	6.58%*	6.63*%	48.1%

** Re-estimated by Deutsche Bank to adjust for the effect due to optional calls on certain deals*

Source Moody's, LoanPerformance, Deutsche Bank

Cumulative loss data published by Moody's in December 2006

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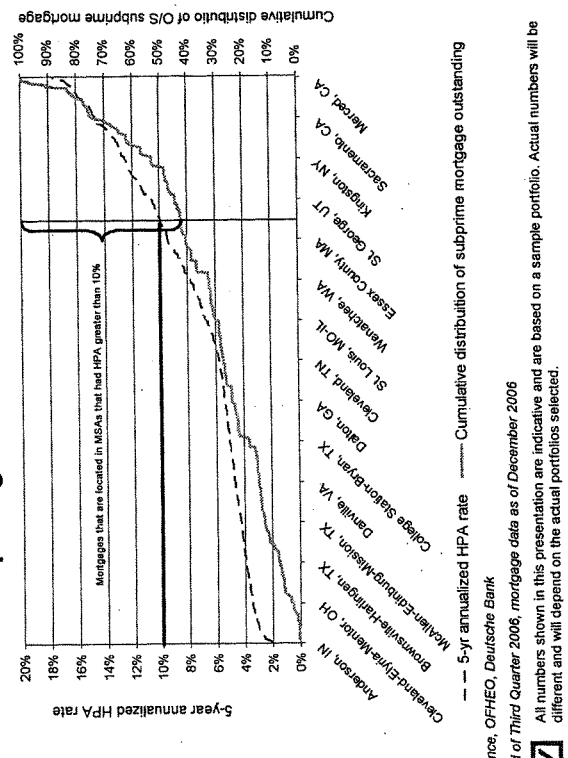
Nearly 60% of outstanding subprime mortgages are located in the MSAs with double digit 6-year average of annual home price growth rates



— — 5-yr annualized HPA rate ——— Cumulative distribution of subprime mortgage outstanding

Source: LoanPerformance, OFHEO, Deutsche Bank

HPA data as of the end of Third Quarter 2006, mortgage data as of December 2006

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Defaults of subprime mortgages are also strongly negatively correlated with home price growth rates

Source: LoanPerformance, OFHEO, Deutsche Bank

HPA data as of end of the third quarter 2006, mortgage data as of December 2006

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There is a strong negative correlation between home price appreciation and loss severity

HPA data as of end of third quarter 2006, mortgage data as of October 2006

Note: See the next page for more details

Source: LoanPerformance, OFHEO, Deutsche Bank

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Loss severity ratios have been strongly negatively correlated with home price appreciation rates

- In the chart on the previous page
  - Defaults are defined as loans exiting pools when being more than 90 days in delinquency, in foreclosure or in REO
  - Only loans belonging to pools where losses are reported by LoanPerformance are included but zero severity liquidations are also included
  - For each individual loan, if the loss amount exceeds the outstanding balance, actual loss amount will be used (i.e. loss severity ratios above 100% are allowed.)
- Larger MSAs with high loss severity ratios include Youngstown, OH-PA (70%), Fort Wayne, IN (64%), Pittsburgh (62%), Dayton, OH (61%), Cleveland (59%) and Indianapolis (55%). All had mediocre home price appreciation in the last 5 years.
- Some larger MSAs with high home price appreciation rates had very low loss severity ratios. These include Los Angeles (0%), Riverside-San Bernardino, CA (0%), Sacramento (0%), Fort Lauderdale (0%), Miami (1%), San Francisco (1%), Las Vegas (1%) and Washington, DC (1%)
- The loss severity ratios in the chart were calculated using first-lien subprime mortgages Originated between January 2000 and December 2004, with initial balance not exceeding $300,000, original LTV between 75 and 85 and defaulted between January 2004 and December 2006. Loss severity ratios for defaults before 2003 were generally higher.

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High HPA rates played major roles in good performance of subprime mortgages in past few years

As shown above

- Mortgages located in the quartile of MSAs with lowest home price growth have been three to five times as likely to default as those in the quartile of MSAs with highest home price growth
- Generally, MSAs with double-digit home price appreciation rates have been experiencing loss severity ratios less than 20%, many such MSAs had loss severity ratios less than 10%. **The average loss severity ratio for loans located in areas with growth rate over 12% was 2%. By contrast, the average loss severity ratio for loans located in areas with growth rate between 2 and 6% was 35%, a 17-fold increase in loss severity.**
- A majority of mortgages by balance originated in the past few years are in areas with double-digit home price appreciation rates
- If home price appreciation rates slow-down to 4% p.a. for MSAs currently having double-digit rates, losses (both defaults and severity ratios) may increase substantially in these MSAs

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Average jobless rates by states from 2001 to 2005 varied between 3 to 7%

Quartiles of 5-Year Average Unemployment Rate (2001-2005)

Lowest Quartile					Second Quartile					Third Quartile					Highest Quartile				
State	Jobless rate	5-year HPA (CAGR)	6-year cumul. defaults	2005 Orig %	State	Jobless rate	5-year HPA (CAGR)	6-year cumul. defaults	2005 Orig %	State	Jobless rate	5-year HPA (CAGR)	6-year cumul. defaults	2005 Orig %	State	Jobless rate	5-year HPA (CAGR)	6-year cumul. defaults	2005 Orig %
ND	3.37%	6.91%	12.62%	0.1%	ME	4.52%	10.09%	9.26%	0.4%	RI	5.06%	14.17%	5.66%	0.5%	KY	5.76%	4.55%	25.42%	0.7%
SD	3.54%	5.58%	18.01%	0.1%	CT	4.58%	10.26%	9.98%	1.2%	IN	5.07%	3.19%	28.67%	1.6%	TX	5.88%	4.17%	25.99%	5.8%
HI	3.64%	16.13%	5.10%	0.5%	OK	4.68%	4.85%	27.24%	0.7%	KS	5.14%	4.41%	19.71%	0.5%	NC	5.89%	5.13%	25.24%	1.8%
NE	3.71%	3.98%	21.18%	0.3%	GA	4.74%	5.06%	25.04%	3.0%	AZ	5.23%	14.49%	9.49%	4.0%	LA	6.10%	6.64%	22.43%	0.7%
VA	3.72%	12.89%	8.40%	2.5%	FL	4.79%	16.28%	11.05%	10.3%	AR	5.25%	5.76%	22.92%	0.4%	IL	6.11%	7.38%	15.28%	5.0%
VT	3.78%	10.66%	10.27%	0.1%	ID	4.80%	9.20%	20.21%	0.4%	CO	5.26%	4.34%	19.30%	1.9%	CA	6.12%	16.21%	4.56%	18.7%
NH	3.98%	10.00%	6.95%	0.4%	AL	4.95%	5.42%	22.60%	0.8%	MO	5.28%	5.92%	20.66%	1.8%	SC	6.31%	5.63%	28.74%	0.9%
DE	3.98%	11.29%	12.62%	0.3%	MA	4.96%	9.44%	7.46%	2.0%	PA	5.29%	9.24%	19.01%	2.5%	MI	6.46%	3.53%	20.19%	3.5%
WY	3.98%	9.25%	11.70%	0.1%	NV	4.96%	15.41%	7.81%	2.0%	TN	5.34%	5.07%	26.10%	1.7%	WA	6.54%	9.89%	16.39%	2.3%
IA	4.18%	4.33%	21.93%	0.5%	WI	5.01%	6.34%	17.08%	1.4%	NM	5.46%	8.49%	21.18%	0.4%	MS	6.58%	5.00%	29.69%	0.5%
MD	4.29%	15.18%	8.52%	3.3%	UT	5.01%	5.93%	25.20%	0.9%	WV	5.47%	6.14%	21.27%	0.1%	DC	6.80%	17.08%	10.07%	0.2%
MT	4.34%	9.28%	16.55%	0.1%	NJ	5.05%	13.09%	11.64%	2.9%	NY	5.66%	11.55%	12.02%	3.9%	AK	7.02%	8.88%	12.30%	0.1%
MN	4.36%	7.95%	12.89%	1.7%						OH	5.70%	3.44%	27.87%	3.0%	OR	7.12%	10.37%	17.98%	1.2%

Source: US Department of Labor, Office of Federal Housing Enterprise Oversight, LoanPerformance and Deutsche Bank

Job data as of the end of 2005, HPA data as of end of second quarter, Default data as of end of August

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The quartile of states with highest unemployment rates have not been the one with highest default rates

Source: LoanPerformance, OFHEO, Deutsche Bank

Data as of December 2006

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Though jobless rates had an impact on subprime mortgage defaults, the pattern has not been nearly as clear as that of home price growth rates

As shown on the last page

- The quartile of the states with highest unemployment rates from 2001 to 2005, which includes California, has had fairly low cumulative default rates, compared with other quartiles
- This shows that, at least in the last six years, the job market has not been the most influential factor of subprime mortgage credit performance, good or bad
- The low defaults in the quartile of states with highest unemployment rates have largely been the result of California's strong housing market, which, despite a below average job market, has produced one of the lowest cumulative default rates

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Lifetime net losses of subprime mortgage pools can potentially go to high teens if home prices flatten

Projected defaults, severity & net losses for typical subprime pools

- Given the strong historical correlation between home price appreciation and lifetime default rates, as well as that between home price appreciation and loss severity ratios, we can roughly project the relationship between home price appreciation and lifetime net loss rates
- The lifetime net loss rate is defined as the dollar amount of losses of mortgages in the pool net of recovery divided by the original pool balance. Therefore the lifetime net loss rate equals the lifetime default rate times the loss severity ratio
- As can be seen from the chart on the left, at 4% home price appreciation, we expect the net loss rate to be close to 10%, enough to wipe out most BBB-bonds. At 0%, net loss rates is expected to be in high teens, enough to wipe out almost all BBB bonds.
- The basic characteristics assumed in the model shown on the left are
  - FICO: 630
  - CLTV: 85
  - Full doc %: 60%
  - Unemployment rate: 5%
  - Balance: $200,000

Source: Deutsche Bank

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How high can subprime mortgage losses go?
Experience of Guardian S&L's securitizations

	Deal Name	Issue Date	Original Deal Size	Cumulative
1988	GSL 1988-01	Jun 88	88,599,160	1.38%
	GSL 1988-02	Aug 88	77,707,894	1.71%
	GSL 1988-03	Sep 88	70,558,507	3.83%
	GSL 1988-04	Oct 88	59,420,630	4.18%
	GSL 1988-05	Nov 88	62,365,902	4.29%
	GSL 1988-06	Dec 88	54,300,924	4.79%
	Weighted average			**3.15%**
1989	GSL 1989-01	Jan 89	63,536,170	4.56%
	GSL 1989-02	Feb 89	55,133,511	4.34%
	GSL 1989-03	Apr 89	129,304,085	4.46%
	GSL 1989-04	May 89	73,352,380	7.60%
	GSL 1989-05	Jun 89	66,110,704	8.00%
	GSL 1989-06	Jul 89	64,015,663	7.74%
	GSL 1989-07	Jul 89	64,012,175	9.48%
	GSL 1989-08	Aug 89	38,764,495	4.62%
	GSL 1989-09	Sep 89	71,197,617	10.14%
	GSL 1989-10	Oct 89	98,948,138	9.29%
	GSL 1989-11	Nov 89	100,031,457	10.78%
	GSL 1989-12	Dec 89	76,189,370	11.40%
	Weighted average			**7.10%**
1990	GSL 1990-01	Jan 90	106,434,749	13.29%
	GSL 1990-02	Feb 90	70,050,087	14.15%
	GSL 1990-03	Mar 90	85,734,389	15.20%
	GSL 1990-04	Apr 90	135,263,315	17.30%
	GSL 1990-05	May 90	113,826,957	16.52%
	GSL 1990-06	Jul 90	164,111,691	16.36%
	GSL 1990-07	Jul 90	125,697,495	18.88%
	GSL 1990-08	Sep 90	145,658,584	19.34%
	Weighted average			**16.89%**
1991	GSL 1991-01	Feb 91	184,575,305	18.48%
	GSL 1991-02	Mar 91	136,658,468	17.36%
	Weighted average			**18.01%**

Source: Moody's

Data as of August 2006

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Is California housing market repeating itself?

Source: OFHEO, Deutsche Bank

Data as of end of Third Quarter 2006

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HEL ABS sector has been experiencing fast growth in recent years

Sources: Thompson Financial Securities Data, Deutsche Bank

** Data as of end of December 2006. ** Projected by Deutsche Bank*

Note: Thompson Financial Securities Data changed its criteria of home equity ABS in January 2006. The new criteria excludes certain deals with relatively high FICO scores. It also no longer include overseas mortgages securitized in the US as home equity ABS, as it used to do. As a result, issuance figures shown here are generally lower than what may have been previously shown.

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Deja-vu? MH had a similarly rapid (albeit milder) growth pattern

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What happened to MH bonds issued in 1998 through 2000 originally BBB rated?

As of October 2006

	1998-vintage	1999-vintage	2000-vintage
Originally rated Baa2/Baa3 (or BBB+/BBB/BBB-)			
Completely written off (i.e., zero recovery)	40%	88%	100%
Partially written off (more losses to come)	50%	12%	
Not yet hit by writedowns, but downgraded to below Caa or lower	10%		
Total	100%	100%	100%
Originally rated A2 (or A+/A/A-)			
Completely written off (i.e., zero recovery)	0%	50%	85%
Partially written off (more losses to come)	78%	38%	15%
Not yet hit by writedowns, but downgraded to below Caa or lower	22%	13%	
Total	100%	100%	100%

(1) Data reflect all deals from major issuers such as Bank of America, Bombardier, DFCS, GreenPoint, Green Tree (Conseco). IndyMac, Merit and Oakwood. Vanderbilt deals are excluded because the company has been buying out defaulted loans.

(2) We use Moody's rating when available; when Moody's ratings are not available, we use S&P's

Source: Moody's, S&P, Deutsche Bank

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Most top issuers are not regulated banks

Top 10 originator-issuer in 2005			
Rank	**Name**	**2005 Volume ($ million)**	**Market share**
1	**Countrywide (CWL / CWHEL / CPT)**	63,142	10.3%
2	Ameriquest (AMSI / ARSI / PPSI)	52,098	8.5%
3	Lehman Brothers (SAIL / LMT / LXS SASC)	43,871	7.1%
4	GMAC-RFC (RASC / RAMP / RAAC / RFMS2)	31,823	5.2%
5	New Century (NCHET)	31,208	5.1%
6	Option One (OOMLT)	24,730	4.0%
7	CSFB (HEAT / ABSHE / HEMT)	24,322	4.0%
8	WMC (GEWMC)	19,225	3.1%
9	Fremont (FHLT)	18,792	3.1%
10	Bear Stearns (BSABS)	17,161	2.8%

Companies in boldface fonts are regulated banks or affiliated with regulated banks.

Sources: Thomson Financial Data Service, Deutsche Bank

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Top subprime mortgage lenders in 2005

Source: Inside Mortgage Finance Publications, Deutsche Bank

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Subprime mortgages originated in 2005 by state

Source: Loan Performance

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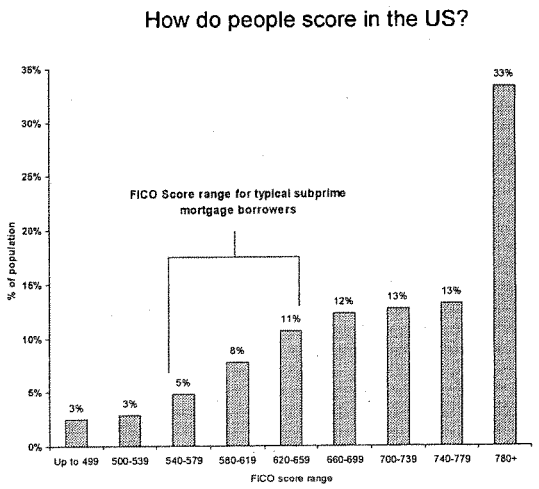
Subprime mortgage borrower base relative to general US population

- Subprime mortgage sector typically lends to borrowers better than the bottom 5% of US consumers but worse than the top 71%.
- Said another way the subprime mortgage universe 'attaches' at about 5% of US consumers and 'detaches' at roughly 29%. 5% and Below are not deemed suitable for traditional home equity ABS deals.
- About 71% of US consumers have better credit and are eligible for better financing terms from either Fannie Mae or Freddie Mac, or prime mortgage lenders.
- Although subprime mortgage borrowers are not exactly consumers with the worst credit, they form the top 81% of the bottom 29% of US consumers.
- FICO scores of the majority of subprime mortgage borrowers are below 650.



Source: Fair Isaac Corporation

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How Fair Isaac views the risk of borrowers with various FICO scores

FICO Bucket	Share in 2005 subprime deals *	Fair Isaac risk rate **
Up to 499	0.12%	83%
500 - 549	11.67%	70%
550 - 599	22.89%	51%
600 - 649	33.69%	31%
650 - 699	22.44%	14%
700 - 749	7.61%	5%
750 - 799	2.44%	2%
800 and higher	0.13%	1%

* Based on LoanPerformance database. Alt-B deals are excluded.

** As defined by Fair Isaac, the percentage of borrowers in the cohort that will either default, file for bankruptcy, or become 90 days delinquent on at least one credit account in the next two years in a normal economic environment

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Loans in recent vintage home equity deals are more risky with higher silent seconds, CLTV and IO, lower full doc and bigger payment shocks

Loan characteristics for subprime ARMs issued in 2004 through 2006

	2004				2006				2006		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
WA FICO	611	617	618	616	618	622	623	625	627	624	620
WA LTV	82	82	82	81	81	79	81	81	81	81	84
WA CLTV	84	85	86	86	86	86	88	86	86	86	89
Silent seconds	12%	15%	24%	25%	27%	30%	34%	32%	24%	27%	27%
Interest-only	8%	11%	17%	19%	24%	29%	30%	30%	25%	16%	8%
40-year mortgage	0%	0%	0%	0%	0%	0%	4%	7%	17%	29%	36%
Full Doc	60%	61%	61%	58%	57%	57%	57%	55%	53%	55%	53%
Average loan size	172,791	178,595	182,621	188,126	193,661	194,398	203,971	209,096	212,335	214,478	217,741
CA %	33.4%	34.4%	34.5%	34.6%	34.3%	31.9%	32.1%	30.6%	31.4%	27.7%	26.6%
Initial WAC	7.31%	7.00%	7.11%	7.23%	7.12%	7.16%	7.14%	7.25%	7.69%	8.13%	8.34%
WA Margin	6.08%	5.82%	5.87%	5.90%	6.01%	5.88%	5.82%	5.84%	5.83%	6.04%	5.87%
6-Month LIBOR at issuance	1.18%	1.54%	1.97%	2.48%	2.45%	3.05%	3.50%	3.97%	4.39%	4.91%	5.40%
Fully indexed rate at issuance	7.26%	7.36%	7.84%	8.38%	8.46%	8.93%	9.32%	9.81%	10.21%	10.93%	11.26%
Difference between start rate and fully indexed rate at issuance	-0.05%	0.36%	0.73%	1.15%	1.34%	1.77%	2.18%	2.56%	2.52%	2.80%	2.92%

Source: Moody's, LoanPerformance, Deutsche Bank

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Example: Borrower's debt-to-income ratio may grow dramatically after resets in a typical subprime loan

Mortgage maturity	360 months
Loan size	$200,000
Teaser rate	7.50%
Teaser period	24 months
IO period	60 months
Reset frequency	6 months
Initial DTI	40%
Mortgage DTI	35%
Current LIBOR	5.59%
Initial periodic cap	3%
Subsequent periodic cap	1.5%
Margin	6%
Assumed annual income growth	4%
Growth rate of other debts	20%

	Mortgage coupon	Monthly Payment	Payment shock	Mortgage DTI	Total DTI	Annual income	Monthly payment for non-mortgage debts
At origination	7.50%	$1,250.00	N/A	35.0%	40.0%	$42,857.14	$178.57
After first reset	10.50%	$1,750.00	$500.00	45.3%	52.0%	$46,354.29	$257.14
After the second reset	11.59%	$1,932.33	$182.33	49.1%	56.2%	$47,272.28	$281.69
After expiration of IO	11.59%	$2,046.70	$114.37	47.1%	57.3%	$52,142.27	$444.34

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What does the payment shock mean to the borrower in the example?

- Borrower's mortgage debt-to-income ratio alone, which is assumed at 35% at the loan origination, will grow more than 10 points to 46% after the initial reset and to nearly 50% at the second reset.
- With a moderate growth assumption for the borrower's other debts, the borrower's total debt-to-income ratio can grow to nearly 60% at the expiration of the IO term.
- In order for the borrower to have the same (mortgage) debt-to-income ratio at the second reset (when the rate becomes fully indexed), the income needs to grow more than 19% annually.
- If home prices stop appreciating, the borrower, with LTV virtually unchanged in the existing loan and likely larger credit card and other debts incurred in the meantime, may find it difficult to refinance into another affordable loan.
- **According to a subprime mortgage servicer who has the top servicer rating from all rating agencies, in the past, about 50% of the borrowers who did not refi at the payment reset would default eventually.**

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Debt-to-income ratios for subprime mortgage borrower would become dramatically higher if calculated using payments with fully-indexed coupons

Distribution of subprime ARM originated in 2005 and 2006 by DTI

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Loan characteristics from major issuers' recent deals[a]

Issuer	ARM %	Type	Loan Size ($)	WA FICO	FICO <560	WA CLTV	CLTV >80	IO	40-Year	Piggy-back	Super States[b]	Low/No Doc	Invest
Ameriquest	84.5%	ARM	209,680	652	2.3	91.6	75.2	51.3	15.4	43.6	58.0	42.2	3.4
		Fixed	144,031	646	5.7	83.5	52.7	13.2	9.6	13.6	40.5	27.8	3.3
Argent	87.7%	ARM	175,276	599	28.1	80.4	52.0	13.6	8.2	11.2	59.8	34.7	3.5
		Fixed	130,561	648	7.7	81.4	58.0	16.1	3.4	4.9	54.4	27.9	5.3
Countrywide	85.0%	ARM	224,679	617	19.7	88.0	72.4	21.5	11.4	33.0	69.6	47.8	9.6
		Fixed	149,125	624	15.9	81.0	53.5	5.8	7.7	8.5	58.3	23.7	5.9
First Franklin	66.9%	ARM	196,964	614	17.0	86.7	66.6	35.4	9.6	34.9	64.1	43.4	4.4
		Fixed	179,582	613	16.8	78.1	44.3	12.8	9.4	9.0	65.0	26.6	2.5
Fremont	89.0%	ARM	256,136	621	16.7	86.2	54.1	16.0	24.7	32.8	76.2	45.4	7.1
		Fixed	92,852	643	5.3	90.8	74.3	0.0	5.2	14.5	77.2	36.5	4.7
Long Beach	86.5%	ARM	233,398	634	10.2	91.5	77.7	8.9	50.4	56.2	70.0	56.5	11.4
		Fixed	106,838	643	5.4	87.0	62.7	0.0	15.4	18.2	62.5	37.9	6.5
New Century	80.3%	ARM	223,667	622	15.7	84.5	57.1	29.3	28.5	18.8	72.4	50.1	9.7
		Fixed	135,655	634	10.0	81.8	52.0	2.0	9.8	6.4	65.0	31.6	6.3
Option One	81.3%	ARM	224,695	613	17.5	86.4	62.8	20.4	22.5	31.6	64.9	45.3	8.1
		Fixed	126,584	634	7.8	83.2	54.8	4.2	12.4	15.4	65.8	35.7	5.1
RASC	79.7%	ARM	171,893	617	10.8	87.5	70.5	17.1	9.8	29.6	46.1	37.0	4.7
		Fixed	99,759	626	8.5	82.7	58.4	2.5	6.6	10.5	41.6	27.1	4.6
WMC	82.7%	ARM	265,670	639	9.3	82.9	34.8	18.7	53.4	11.8	80.2	60.1	4.2
		Fixed	91,806	649	2.9	90.2	70.7	0.0	14.0	1.3	76.1	55.4	3.3

Source: LoanPerformance, Deutsche Bank

a. Deals issued in 2006.

b. Super states are states whose home price index increased more than 10% YoY since the second quarter of 2001. These include AZ, CA, CT, DC, DE, FL, HI, MD, ME, NJ, NV, NY,OR, RI, VA and VT

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All numbers shown in this presentation are indicative and are based on a sample portfolio. Actual numbers will be different and will depend on the actual portfolios selected.

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Typical 2005-vintage home equity deals from major issuers

		Long Beach 2005-2		First Franklin 2005-FF6		New Century 2005-4		RASC 2005-KS11	
Collateral	ARM %	94.0%		89.8%		42.5%		62.7%	
	Average Balance	$193,360		$223,787		$205,009		$151,066	
	WAC	7.41%		6.69%		7.21%		7.51%	
	WA CLTV	90%		90%		87%		85%	
	WA 1st Lien LTV	83%		83%		81%		81%	
	Piggyback	39.6%		36.9%		29.0%		18.9%	
	% CLTV >80	78.2%		78.0%		69.0%		63.5%	
	WA DTI	NA		44.50%		41.00%		NA	
	% DTI >40	NA		70.80%		62.60%		NA	
	Owner Occ.	81.8%		97.2%		89.7%		93.6%	
	% CA	33.9%		41.6%		39.4%		9.1%	
	Avg. FICO	636		647		626		614	
	IO%	24.6%		63.2%		39.3%		10.9%	
Subordination (Class %)	Aaa	26.35%	(73.65%)	20.20%	(79.80%)	22.90%	(77.10%)	20.60%	(79.40%)
	Aa2	14.10%	(12.25%)	12.80%	(7.40%)	15.80%	(7.10%)	13.75%	(6.85%)
	A2	9.70%	(4.40%)	7.85%	(4.95%)	10.20%	(5.60%)	8.30%	(5.45%)
	A3	8.50%	(1.20%)	6.45%	(1.40%)	8.65%	(1.55%)	6.80%	(1.50%)
	Baa1	6.80%	(1.70%)	5.30%	(1.15%)	7.05%	(1.60%)	5.25%	(1.55%)
	Baa2	5.70%	(1.10%)	4.20%	(1.10%)	5.95%	(1.10%)	4.05%	(1.20%)
	Baa3	4.50%	(1.20%)	3.40%	(0.80%)	4.85%	(1.10%)	2.95%	(1.10%)
	Ba1	3.20%	(1.30%)	2.40%	(1.00%)				

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Typical 2006-vintage home equity deals from major issuers

		Long Beach 2006-WL1		Soundview 2006-OPT3		Morgan Stanley 2006-NC1		RASC 2006-KS4	
Collateral	ARM %	90.0%		84.9%		77.7%		86.5%	
	Average Balance	$207,619		$192,957		$202,198		$145,305	
	WAC	7.45%		8.58%		7.33%		8.43%	
	WA CLTV	92%		100%		81%		87%	
	WA 1st Lien LTV	80%		80%		80%		82%	
	Piggyback	57.5%		94.3%		NA		25.2%	
	% CLTV >80	80.0%		99.3%		45.1%		69.2%	
	WA DTI	NA		42.23%		40.69%		NA	
	% DTI >40	NA		64.84%		60.75%		NA	
	Owner Occ.	91.6%		94.1%		91.7%		94.1%	
	% CA	45.0%		22.1%		38.7%		10.9%	
	Avg. FICO	NA		602		620		623	
	IO%	7.2%		9.5%		26.2%		15.7%	
Subordination (Class %)	Aaa	23.35%	(76.65%)	23.70%	(76.30%)	21.10%	(78.90%)	22.00%	(78.00%)
	Aa2	16.40%	(6.95%)	15.45%	(8.25%)	14.55%	(6.55%)	14.65%	(7.35%)
	A2	10.90%	(5.50%)	9.95%	(5.50%)	9.50%	(5.05%)	9.05%	(5.60%)
	A3	9.40%	(1.50%)	8.30%	(1.65%)	8.05%	(1.45%)	7.40%	(1.65%)
	Baa1	8.00%	(1.40%)	6.70%	(1.60%)	6.65%	(1.40%)	5.90%	(1.50%)
	Baa2	6.75%	(1.25%)	5.35%	(1.35%)	5.40%	(1.25%)	4.50%	(1.40%)
	Baa3	5.75%	(1.00%)	4.25%	(1.10%)	4.35%	(1.05%)	3.50%	(1.00%)
	Ba1	4.70%	(1.05%)	3.45%	(0.80%)			2.80%	(0.70%)

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How do Baa2 and Baa3 tranches in a typical 2005-vintage subprime mortgage deal fare?

% for base case prepayment	Lifetime net cumulative losses when the tranche will be hit by principal writedown	Lifetime net cumulative losses when the tranche will be wiped out
For Baa2		
70%	12.11%	13.66%
80%	10.81%	12.36%
90%	9.82%	11.34%
100%	9.06%	10.55%
110%	8.46%	9.91%
120%	7.97%	9.39%
130%	7.57%	8.96%
For Baa3		
70%	10.06%	12.11%
80%	8.84%	10.72%
90%	7.93%	9.82%
100%	7.22%	9.06%
110%	6.66%	8.46%
120%	6.22%	7.97%
130%	5.86%	7.57%

Note: We used multiples of the prepayment and losses assumptions outlined in the prior pages and the forward LIBOR curves as of November 16, 2006. We chose Option One 2005-4 as our model transaction which has somewhat typical initial credit enhancement levels for Baa3 (3.85%), Baa2 (5.35%) and Baa1 (6.55%). **All step-down or step-up triggers in the deal structure are assumed activated for conservatism. If the triggers are not activated, the break points may be substantially lower.**

As shown, faster prepayments usually cause bonds to "break" at lower loss levels, since there is less excess spread.

Conversely, bonds "break" at higher loss levels under slow prepayments. However, under such a scenario, more borrowers will pay fully indexed rates longer (usually this is a sign that fewer borrowers are able to refinance). Therefore, the cumulative losses out of a pool could be higher.

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How do Baa2 and Baa3 tranches in a typical 2005-vintage subprime mortgage deal fare (continued)?

% for base case prepayment	Lifetime net cumulative losses when the tranche will be hit by principal writedown	Lifetime net cumulative losses when the tranche will have 30% principal writedown	Lifetime net cumulative losses when the tranche will be wiped out
For Baa2			
70%	12.11%	12.58%	13.66%
80%	10.81%	11.28%	12.36%
90%	9.82%	10.28%	11.34%
100%	9.06%	9.51%	10.55%
110%	8.46%	6.17%	9.91%
120%	4.24%	5.17%	9.39%
130%	3.13%	5.19%	9.39%
For Baa3			
70%	10.06%	10.67%	12.11%
80%	8.84%	9.42%	10.81%
90%	7.07%	7.58%	9.82%
100%	5.70%	6.42%	9.06%
110%	4.52%	5.27%	8.46%
120%	3.39%	4.50%	8.98%
130%	2.54%	4.43%	9.64%

Note: We used multiples of the prepayment and losses assumptions outlined in the prior pages and the forward LIBOR curves as of November 16, 2006. We chose Option One 2005-4 as our model transaction which has somewhat typical initial credit enhancement levels for Baa3 (3.85%), Baa2 (5.35%) and Baa1 (6.55%). **In this scenario, all step-down or step-up triggers in the deal structure are allowed to pass or fail based on the prepayment and default assumptions (and a 0% delinquency rate). This results in lower breakpoints than the initial enhancements under rapid prepayment scenarios because the subordination begins to pay down or be released *before* losses have hit the deal at the three year stepdown date.**

As shown, faster prepayments usually cause bonds to "break" at lower loss levels, since there is less excess spread.

Conversely, bonds "break" at higher loss levels under slow prepayments. However, under such a scenario, more borrowers will pay fully indexed rates longer (usually this is a sign that fewer borrowers are able to refinance). Therefore, the cumulative losses out of a pool could be higher.

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How do Baa2 and Baa3 tranches in a typical 2006-vintage subprime mortgage deal fare?

% for base case prepayment	Lifetime net cumulative losses when the tranche will be hit by principal writedown	Lifetime net cumulative losses when the tranche will be wiped out
For Baa2		
70%	14.57%	15.37%
80%	12.05%	12.89%
90%	10.38%	11.23%
100%	9.16%	10.01%
110%	8.19%	9.04%
120%	7.42%	8.27%
130%	6.80%	7.64%
For Baa3		
70%	13.28%	14.57%
80%	10.49%	12.05%
90%	8.92%	10.38%
100%	7.73%	9.16%
110%	6.80%	8.19%
120%	6.06%	7.42%
130%	5.47%	6.80%

Note: We used multiples of the prepayment and losses assumptions outlined in the prior pages and the forward LIBOR curves as of November 16, 2006. We chose Citigroup Mortgage Loan Trust 2006-NC1 as our model transaction which has somewhat typical initial credit enhancement levels for Baa3 (3.70%), Baa2 (4.80%) and Baa1 (5.50%). **All step-down or step-up triggers in the deal structure are assumed activated for conservatism. If the triggers are not activated, the break points may be substantially lower.**

As shown, faster prepayments usually cause bonds to "break" at lower loss levels, since there is less excess spread.

Conversely, bonds "break" at higher loss levels under slow prepayments. However, under such a scenario, more borrowers will pay fully indexed rates longer (usually this is a sign that fewer borrowers are able to refinance). Therefore, the cumulative losses out of a pool could be higher.

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How do Baa2 and Baa3 tranches in a typical 2006-vintage subprime mortgage deal fare (continued)?

% for base case prepayment	Lifetime net cumulative losses when the tranche will be hit by principal writedown	Lifetime net cumulative losses when the tranche will have 30% principal writedown	Lifetime net cumulative losses when the tranche will be wiped out
For Baa2			
70%	14.57%	14.81%	15.37%
80%	12.05%	12.30%	12.89%
90%	10.38%	10.64%	11.23%
100%	9.16%	9.42%	10.01%
110%	5.70%	6.11%	9.04%
120%	4.23%	4.59%	7.70%
130%	3.14%	4.67%	7.43%
For Baa3			
70%	13.28%	13.68%	14.57%
80%	10.49%	10.94%	12.05%
90%	8.92%	9.35%	10.38%
100%	6.31%	6.89%	9.16%
110%	4.87%	5.49%	7.58%
120%	3.64%	4.20%	7.25%
130%	2.67%	4.51%	7.74%

Note: We used multiples of the prepayment and losses assumptions outlined in the prior pages and the forward LIBOR curves as of November 16, 2006. We chose Citigroup Mortgage Loan Trust 2006-NC1 as our model transaction which has somewhat typical initial credit enhancement levels for Baa3 (3.70%), Baa2 (4.80%) and Baa1 (5.50%). **In this scenario, all step-down or step-up triggers in the deal structure are allowed to pass or fail based on the prepayment and default assumptions, (and a 0% delinquency rate). This results in lower breakpoints than the initial enhancements under rapid prepayment scenarios because the subordination begins to pay down or be released *before* losses have hit the deal at the three year stepdown date.**.

As shown, faster prepayments usually cause bonds to "break" at lower loss levels, since there is less excess spread.

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Footnote Exhibits - Page 0969

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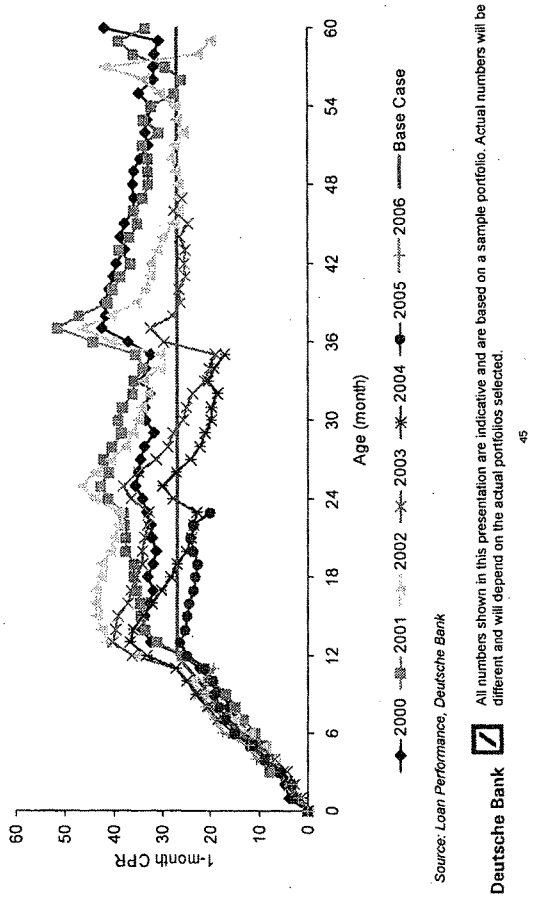
We assume base case prepayment assumption using historical prepayment data – fixed rate mortgages

Fixed rate historical prepayments and base case assumption



Source: Loan Performance, Deutsche Bank

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We assume base case prepayment assumption using historical prepayment data – ARMs

ARM historical prepayments and base case assumption

Source: Loan Performance, Deutsche Bank

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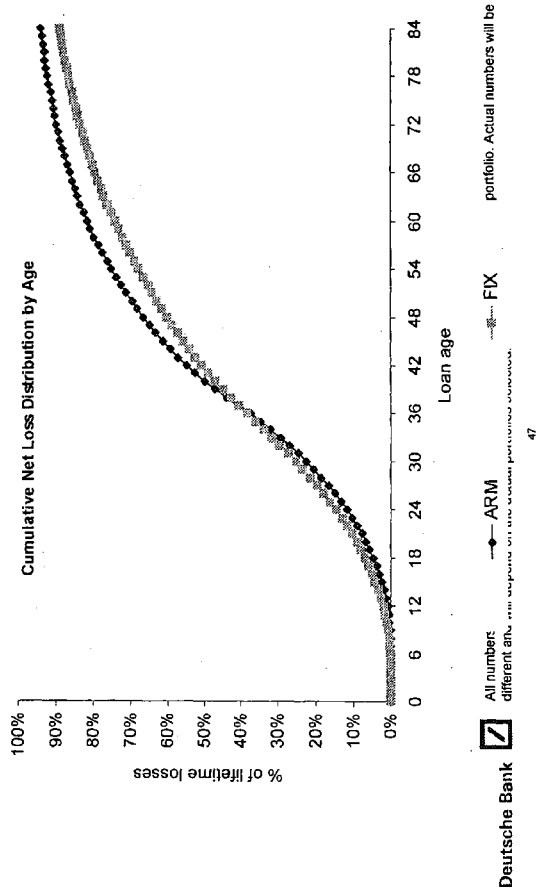
Most of losses in collateral happen between year 2 and year 4, especially after rate-adjustment induced payment shocks



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Nearly $783 billion subprime mortgages will experience payment shocks in the next 3 years

Estimated amount of current outstanding subprime mortgages with future payment shocks

Note: Securitized subprime mortgages only

Data as of October 2006

Sources: LoanPerformance, Deutsche Bank

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The 2005 and 2006-vintages have underperformed their predecessors

Note: There was virtually no subprime IO lending before 2003.

Data as of October 2006

Source: Loan Performance, Deutsche Bank

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The 2005-vintage was most risk-layered

Sources: LoanPerformance, Deutsche Bank

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Pay-as-you-go (PAUG) structure: the market's answer to challenges posed to ABS CDS

- The physical delivery and credit event-settlement are not required
  - Unlike corporate CDS, ABS CDS does not require physical delivery of the underlying bond from the protection buyer (who has effectively sold the underlying bond short). This helps to greatly neutralize the risk of a short squeeze.
  - Nor is cash settlement at the credit event mandatory. This would avoid either party from been trapped with artificially high or low quotes.
- The cashflow of the PAUG ABS CDS is dictated by the underlying bonds distribution cashflow, outstanding balance, and interest shortfalls or principal writedown, if any.
  - The underlying bond's balance, interest shortfall and principal writedown are calculated using rules set at the issuance. (See Appendix for typical bond payment structure.)
  - If the underlying bond is paid down, the notional amount for the CDS will decline accordingly.
  - If there is an interest shortfall in the underlying bond resulted from the available funds cap, premium payment for CDS will be reduced accordingly, subject to the ceiling of the premium size.
  - If there is an interest shortfall due to credit loss or there is a principal writedown, the protection seller will pay the protection buyer accordingly

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Deutsche Bank's counterparty will have stable counterparty risk while enjoy flexibility of assigning the contract to another broker-dealer

- A protection buyer will always have DB as the counterparty if the contract is initially made with DB
  - DB may hedge its position, but will never assign the contract to any third party
  - If the CDO is DB's counterparty, it is required to be fully funded in a separate offshore SPV
- However, the protection buyer can offload the position by
  - Unwind the contract with DB
  - Physically deliver the bond
  - Assign the contract to another broker dealer (effectively covering the short)

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Appendix:

The underlying securities: subprime RMBS

Deutsche Bank

Deutsche Bank Securities Inc, a subsidiary of Deutsche Bank AG, conducts investment banking and securities activities in the United States

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U.S. Residential Mortgage

Single family mortgages

- mortgages on single family (detached) houses
- not included: condos, town houses, co-ops, buildings with more than 1 units, commercial properties, etc.

2-4 family mortgages

- mortgages on residential buildings with 2 to 4 family units

Multi-family mortgages

- usually considered as commercial mortgages

Other residential mortgages

- condos, town houses, co-ops, etc.

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The US Residential MBS Market

Agency mortgages are mortgages that are in Ginnie Mae, Fannie Mae and Freddie Mac programs.

Typical Fannie Mae / Freddie Mac requirements

- balance limit: $359,650 for 2005 (single family house)
- loan priority: must be first-lien
- debt-to-income ratio limit:
  - 28% for mortgage debt
  - 33% for total debt
- cash-out not above 75% LTV (if refinance)
- loan-to-value ratio limit: 95%
- credit history: FICO score at least 720

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Residential Mortgages (continued)

- Conventional loans: fixed rate loans in Fannie Mae and Freddie Mac programs
- GNMA loans are not available to the general public
- Jumbo mortgage: a prime loan with a balance higher than the agency limit.
- Prime mortgages: mortgages that are either agency mortgages or jumbo mortgages.

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Profile of traditional home equity product

- Low balance
- Second or third lien
- Credit score above 680
- Usually a refinancing to take out cash
- 15-year maturity (or shorter)
- Combined loan-to-value (CLTV) ratio less than 100
- Include home equity lines of credit (securitized separately)

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Subprime (a.k.a. B&C) mortgages

- Often a first lien mortgage
- May be purchase, cash out, etc.
- May be used for cash-out purposes or debt consolidation
- Typical LTV around 80, may reach 100
- Often have piggy-back second lien loans
- Includes FHA Title 1 loans and other home improvement loan products

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Products that may be riskier than traditional home equity/subprime mortgages have become popular

Because of the continued faster pace in home price appreciation compared with wage growth, lenders have developed a number of products to enable borrowers to qualify for mortgage payments and/or to pay minimal down-payment

- IO mortgages
  - Loan only pays interest in the IO period (usually 2 to 5 years)
  - At the expiration of the IO period, loan converts to fully amortizing loans
  - Payment shock at the expiration of the IO period may cause defaults to surge
- Silent second mortgages
  - A simultaneous pair of first and second lien loans are made at the origination (usually 80% LTV for the first lien and 10 to 20% LTV for the second lien)
  - Borrower pays little or no down-payment
  - Only the first lien mortgage shows up in a securitization and LTV appear to only be 80%. But the borrower's tendency to default is much high than a true 80% first lien mortgage.
- Option ARMs
  - Allow borrower to pay exceedingly low initial minimum payments
  - Indexed on moving Treasury average (MTA), LIBOR or COFI-11
  - Likely to have negative amortization
  - Recast of schedule at 5th anniversary may potentially cause significant payment shocks
- Stated-income mortgage loans
  - Income of the borrowers is not substantiated by the documentation, nor is it verified
  - Borrowers may inflate income to get loan approved
- 40-year mortgages
  - Lengthened amortization schedule to make monthly payment smaller
- High debt-to-income ratio loans
  - DTI for these loans may reach beyond 50%, leaving little for the borrower to pay other expenses

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Subprime mortgagors

- Demographically, this borrower is "middle America"
- Financially, this borrower
  - Has mismanaged his finances (past delinquencies, foreclosures or bankruptcies, low credit score)
  - Used excessive leverage (high DTI and/or LTV)
  - Is cash-strapped (large amount of cash-out refi.)
- While "riskier" than prime and jumbo borrowers, subprime borrowers
  - Are not directly impacted by stock market gyrations
  - Live in homes that are more liquid, less volatile

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The channel of mortgage lending

- There are three major channels of lending mortgages
  - Retail – Loans are originated in branches of the lender. The lender controls most aspects of underwriting, including credit checking, income verification, appraiser selection, appraisal quality control, etc. The originator is more likely to have local market knowledge
  - Whole-sale – Loans are originated by brokers who have regular business relationships with the lender. The lender may have an approval process in accepting a broker to its network and may monitor the performance of a broker's origination. The lender controls some aspects of the underwriting process but relies on the broker to do others.
  - Correspondence – Loans are originated by non-affiliated brokers according to the lenders underwriting matrix. The lender is likely to re-underwrite the loan in most aspects.

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Income documentation and verification

- Full documentation, full verification
  - Last 2 years' W2s
  - Last 2 months' pay stubs
  - Letter from employer (verified by call)
  - Last 2 years' income tax returns (self-employed only)
  - Last 2 months' bank statements (verified by call)
- Partially (limited, light) documentation
  - Some of the documentations are deficient but usually one of income or employment proofs is available
- No income (stated income), no verification
  - Nothing is available

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Appraisal process: the V in LTV

- Most used form of appraisals
  - Full appraisal (1004 appraisal)
  - Drive-by appraisal (2055 appraisal)
  - Broker price opinion (BPO)
  - Automated valuation model (AVM)
- Appraisers are paid on the case load, not value of the property
- Most of appraisers' business come from lenders
- Many lenders also employ in-house appraisers to control the quality of appraisals
- Even for purchase loans, an appraisal is needed to mitigate the risk of fraud

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Business models of subprime lenders

- Balance sheet lending
  - Pure lending on the company's own book is very rare for major lenders
- Whole-loan sales
  - Newer lenders mostly rely on whole-loan sales to dispose loans
  - Established lenders often engage in whole-loan sales when they see opportunities
  - Whole-loans sold will most likely be securitized by the buyer
- Securitization
  - Securitization are used for many purposes, the most common among them
    - Lower cost of funding
    - Raise leverage
    - Release regulatory capital
    - Managing risk

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What do credit ratings really mean?

- Most common approach by rating agencies
  - Establish a set of base case assumptions
    - Default (foreclosure) frequency
    - Loss severity ratio
    - Prepayments
    - Interest rate scenario
  - Establish AAA class stress assumptions
    - Default frequency for AAA, depend on the type of loans, may be 4 to 10 times of the base case
    - Moody's uses simulations to decide AAA credit enhancement (bonds should have no losses in 99.5% or more of the simulated cases)
    - Committee decisions are mostly involved in deciding the C/E

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What factors are used in deciding assumptions?

- Factors used in determining the base case assumptions include:
  - Borrower characteristics (income, credit history, etc)
  - Loan characteristics (LTV ratio, term, property type, purpose, occupancy, MI, etc)
  - Pool characteristics (concentration, etc)
  - Originator and servicer practices and loan programs
  - Macro and local economic consideration (employment, real estate market, etc.)

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Moody's typical loss severity assumption on the underlying loans

Rating Level	Loss severity percent
Aaa	60.0%
Aa	55.0%
A	50.0%
Baa	45.0%
Ba	42.5%
B	40.0%

Source: Moody's Investor Service

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Other issues rating agencies consider

- Mortgage insurance
  - The presence of MI will reduce loss severity
  - Rating agencies generally assume that the servicer won't be able to collect 100% of claims. A "haircut" is made to the mortgage insurance
  - Haircut is made according to the rating

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Over-collateralization: the most basic credit enhancement

- A deal is over-collateralized when
  - The balance of the pool is larger than the aggregate balance of the bonds
  - Collection proceeds are first used to pay bonds' interest and principal
- Most mortgage ABS deals use some form of over-collateralization to enhance the credit for
  - Bondholder
  - Insurer
- The exceptions are
  - Whole-loan deals issued by GSEs
  - Some deals with issuer-guaranteed classes
- OC can be viewed as a special tranche that is the first loss piece for the deal

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Subordinate bonds act as cushion against losses

- In a senior-sub structure, in each period, senior bonds have the priority in
  - Interest payments
  - Principal payments
- Sub bonds' interest payment may or may not have priority versus senior bonds' principal payments

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Typical home equity ABS structure: sequential with cross-over, OC turbo and step-down

- In the first few years, principal are paid sequentially among senior, mezzanine and subordinate tranches
- OC can be built up from the initial level by using excess spreads to pay down principal of bonds
- After the cross-over date, mezzanine and subordinate bonds start to receive principal simultaneously with senior bonds (provide no trigger event occurs)
- After the step-down date, part of OC is released (provided no trigger event occurs)
- An optional redemption (clean-up) call allows the servicer to call the deal when the collateral pool is below 10% of the original size.

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Deals with multiple collateral groups: Y-structure

- A deal may have more than one group of collateral, each supporting its own sets of bonds
- Lower classes (or O/C) may receive cash from entire pool
- This structure enables the better performing group to aid the worse performing one
- Triggers are more complicated

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Available funds cap: definition

- Maximum net WAC caps the coupon paid to bondholders
- Net WAC is gross WAC minus
  - Servicing fee
  - Trustee fee
  - Insurance premium (if any)
  - IO payment (if any)
- Designed to prevent bonds from defaulting because interest mismatch (as opposed to collateral performance)
- Capped-out amount is carried forward and may be recouped in the next month

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Rajeev Misra/DMGGM/DMG UK/DeuBa@DBEMEA
02/24/2007 05:31 AM

To Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas@DBAMERICA;
cc
bcc
Subject Re: Home Equity Risk

Thanks. Excellent summary.

Sent from my BlackBerry Handheld.

From: Greg Lippmann
Sent: 02/23/2007 08:58 PM
To: Anshu Jain
Cc: Rajeev Misra; Richard DAlbert; Alex Crossman; Mark Ferron; Jonathan Wills
Subject: Home Equity Risk

As per our conversation yesterday, here is an update of our Home Equity Exposure.

Trading Desk
Net Short

	BBB	BBB-	Total
2004	754MM	443MM	1.2BB
2005	1067MM	413MM	1.5BB
2006	1077MM	521MM	1.6BB
2007	34.5MM	83.5MM	0.17MM
Total	2.86BB	1.50BB	4.36BB

Recent changes:
Wednesday: short 3BB
Wednesday to Thursday increase: shorter by 800MM
Thurday to Friday: shorter by 300MM
Friday shorter by 500MM (we will offer this to CDO group)

CDO New Issue
Warehouses:
Total Notional 3.4BB
2.4BBHome Equity. Estimated Hedge Ratio 100%
200MM Prime Estimated Hege Ratio 20%
80MM CMBS Estimated Hedge Ratio 10%
600MM ABS CDOs 200%
73MM Other CDOs 20%

Internal Hedges within CDO Warehouse:
265MM ABS
134MM CDO (2X hedge ratio)

525MM delta of ABS Hedge

We have lowered (but not eliminated) the hedge ratio for deals in which we are confident of exectution for example Blackrock is roughly 1.2BB of the total exposure.

Target Hedge Net of internal Shorts 1.7BB in total
Actual Hedges1.2BB (480MM left to do):
2BB Super Senior with roughly 33 delta - 600MM
40MM Single Name CDS
550MM ABX
We will do 480MM more Single Name CDS

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
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Recent Trades
2/22 100MM 06-1 BBB- 86.5
2/22 400MM 06-2 BBB 76.625
2/23 100MM 06-2 BBB- 66.00

CDO Unsold Inventory Mix of Managed and Unmanaged Target Hedge 280MM Actual Hedge 280MM
AA/A 35MM hedge ratio 2.25X
BBB 50MM hedge ratio 3.25X
BB 17MM hedge ratio 4.25X

Mortgage Wharehouse Lines
Roughly 2.5BB of Subprime. Callable in 45 days varying haricuts, in some cases to highly rated counterparties (1.6BB of total). We think the 200MM hedge that was put on in the last month is sufficient.

Current Markets
07-1 BBB 73-16 – 77-00 (1080/965)
07-1 BBB- 67-28 - 69-00 (1500/1450)
06-2 BBB 75-00 - 78-24 (1025/900)
06-2 BBB- 69-00 - 70-16 (1425/1375)
06-1 BBB 87-00 - 89-24 (690/575)
06-1 BBB- 84-00 - 87-00 (950/825)

Estimated basis between single names in index and index 4 pts. Note 06-1 consists of 20 credits issued in 2nd half 2005, 06-2 first half 06, 07-1 second half 06.

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greg.lippmann@db.com

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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Sent from my BlackBerry Handheld.

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Footnote Exhibits - Page 1000



jmilman@bbotg 11/08/2005 04:05 PM

To: greglip@bbotg
cc:
Subject: Fwd: Re: Fwd: DB ABS CDS COMMMENTARY: CDO OH BABY! 11/08/05

Message Sent: 11/08/2005 16:05:56
From: JMILMAN@BBOTG|JORDAN MILMAN|DEUTSCHE BANK SECURI|1726|328663
To: GREGLIP@BBOTG|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663

---- Original Msg from: IVELIN DOROVSKI, DEUTSCHE BANK AG At: 11/ 8 16:05=

thanks. you guys are remarking the cds accordingly, right?
----- Original Message -----
From: JORDAN MILMAN, DEUTSCHE BANK SECURI
At: 11/ 8 13:45

---- Original Msg from: ROCKY KURITA, DEUTSCHE BANK SECURI At: 11/ 8 8:0=
8
"CDO Oh Baby" by Vanilla Ice

Yo vip let's kick it!
C D O oh baby, C D O oh baby
All right, stop, collaborate and listen
Spreads are wide with a technical invasion
Home Eq Subs were trading so tightly
Until Hedge Funds Bot Protection daily and nightly
Will they stop? Yo I don't know

Turn up the Arb and let's go
To the extreme Macro Funds do damage like a vandal
Now, BBBs are trading with a new handle
Print, even if the housing bubble looms
There are never ends to real estate booms
If there is a problem, yo, we'll solve it

Check out the spreads while my structurer revolves it
C D O oh baby, C D O oh baby

ABS CDS Commentary 11/8/05
We continued to see wide prints in the CDS HEQ as Credit Long Dealers
=

continue to hedge/cover secondary cash positions, whole loan packages, CD=
O
equity, and synthetic longs. Baa2 HEQ CDS are printing north of +200 and =
Baa3
HEQ CDS are printing north of +325. When tabulating the total BWIC for

protection(Sellers of protection, which includes CDOs and Hedge Funds
unwinding), there will be over $1bln of credit risk that will leave the s=
treet
this week with focus on the Baa2/Baa3 part of the capital structure. We =
expect
spreads to stabilize or even tighten as a result. If spreads continue to =

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widen,
it will show the depth of the short in the market and the staying power o=
f the
Hedge Fund and Dealer Bid for protection. To put the amount of risk that =
needs
to be digested in a different way, $1bln in Baa2 and Baa3 HEQ risk would =
be the

equivalent of over $20bln of cash new issue tranmsactions if the BBB stac=
k is 5%
of the capital structure. If the dealer communtity can short that risk a=
nd keep
begging for more, it would indicate the following:
A. Dealers have been on the wrong side of this spread move in much bigger=
size
than initially estimated.
B. There are much more hedge funds than we thought buying credit protecti=
on in
HEQ.

C. The technicals are overwhelming. Fundamentals are meaningless until sp=
reads
move significantly wider. Real money accounts did not participate at Baa3=

spreads of +375 last year.
D. The Hedge Funds are winning the battle against the CDOs
E. The market is going wider.

Other trends/observations:
-Single A/Baa1 HEQ CDS Spreads are leaking wider driven by Dealers that h=
ave

been lifted out of Baa2 and Baa3 protection by Hedge Funds. They seem to =
be
scrambling to buy anything to cover their risk. If spreads continue to wi=
den on
technicals, the credit curve will continue to steepen as Hedge Funds will=

continue to focus on buying protection on the more levered parts of the c=
ap
structure.
-We are seeing some Hedge Funds unwindind a small % of their short but th=
e

staying power and the discipline of the Hedge Fund community to leave in =
the
money trades on has been surprising. Many Hedge Funds believe that Baa3 H=
EQ can
take a principal loss.
-Rumors are that CDO Equity and Mez are struggling to get done.
-There are no less than 20 CDO transactions ramping up but spreads still =
widen.
Dealers are taking on tremendous warehouse risk amidst the tremendous vol=
atility

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and spread widening. If the debt widens, dealers could be left holding a=
bag of
subprime HEQ risk just like they will be left holding keys to homes that=

default.

Recommendations:
-For investors long protection, take some chips off the table, particular=
ly in
Baa3 HEQ.
-Buy protection on BBB cards. Next shoe to drop?

-Sell protection on Baa2 and Buy Protection on Baa1 HEQ. The credit curve=
has
steepened dramatically over the past week.
-Buy protection on MEZ tranches of ABS CDO transactions. Sell protection =
on
single names or take down CDO Equity.
-Sell protection up the cap structure in virtually all asset classes. We =
view
these trades as funding trades more so than credit trades.

Deutsche Bank ABS CDS Axes 11/08/05

Deutsche Bank Securities Inc. has prepared this report based on
information it believes to be accurate but does not guarantee
its accuracy or completeness. ALL OFFERINGS ARE SUBJECT.
Please contact the desk at x7730.

HEQ GENERIC MARKETS.
CALL DESK FOR TERMSHEET DETAILS
NOTION BOND AVGL RATING BID/OFFER
10.000 HEQ 5.00 Aaa +13/+23
10.000 HEQ 5.00 Aa1 +27/+47
10.000 HEQ 5.00 Aa2 +29/+49
10.000 HEQ 5.00 Aa3 +33/+53
10.000 HEQ 5.00 A1 +57/+77
10.000 HEQ 5.00 A2 +62/+82
10.000 HEQ 5.00 A3 +67/+87

10.000 HEQ 5.00 Baa1 +155/+195
10.000 HEQ 5.00 Baa2 +200/+210
10.000 HEQ 5.00 Baa3 +300/+350

10.000 HEQ 5.00 Ba1 +700/+850
HEQ ISSUER SPECIFIC MARKETS.
TO ASSIGN A TRADE, PROVIDE COUPON & COUNTERPARTY, THEN WE WILL GIVE LEVEL=
S.
Use "RMBSPAUG.PDF" termsheet.
NOTION ISSUER AVGL RATING BID/OFFER

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10.000 ABFC 5.00 Baa2 +200/+230
10.000 ABSHE 5.00 Baa2 +200/+230
10.000 ACCR 5.00 Baa2 +210/+240
10.000 ACE 5.00 Baa2 +200/+230
10.000 AMSI 5.00 Baa2 +210/+240
10.000 BSABS 5.00 Baa2 +210/+240
10.000 CBASS 5.00 Baa2 +190/+220

10.000 CWL 5.00 Baa2 +208/+238
10.000 CXHE 5.00 Baa2 +210/+240

10.000 ECR 5.00 Baa2 +215/+245
10.000 FFML 5.00 Baa2 +200/+230
10.000 FHLT 5.00 Baa2 +205/+235
10.000 GSAMP 5.00 Baa2 +200/+230
10.000 HEAT 5.00 Baa2 +200/+230
10.000 INABS 5.00 Baa2 +210/+240
10.000 LBMLT 5.00 Baa2 +200/+230
10.000 MABS 5.00 Baa2 +195/+235
10.000 MLMI 5.00 Baa2 +200/+230
10.000 MSAC 5.00 Baa2 +195/+230
10.000 NCHET 5.00 Baa2 +215/+245
10.000 NHEL 5.00 Baa2 +210/+240
10.000 OOMLT 5.00 Baa2 +195/+235

10.000 PCHLT 5.00 Baa2 +210/+240

10.000 PPSI 5.00 Baa2 +210/+240
10.000 RAMP 5.00 Baa2 +200/+230
10.000 RASC 5.00 Baa2 +200/+230
10.000 SABR 5.00 Baa2 +200/+230
10.000 SAIL 5.00 Baa2 +210/+240
10.000 SAST 5.00 Baa2 +205/+240
10.000 SVHE 5.00 Baa2 +200/+230
10.000 WFHET 5.00 Baa2 +190/+220
10.000 WMC 5.00 Baa2 +190/+220
NOTION ISSUER AVGL RATING BID/OFFER
10.000 ABFC 5.00 Baa3 +305/+345
10.000 ABSHE 5.00 Baa3 +305/+345
10.000 ACCR 5.00 Baa3 +315/+345
10.000 ACE 5.00 Baa3 +295/+350

10.000 AMSI 5.00 Baa3 +320/+355
10.000 BSABS 5.00 Baa3 +310/+340
10.000 CBASS 5.00 Baa3 +285/+335
10.000 CWL 5.00 Baa3 +300/+330
10.000 CXHE 5.00 Baa3 +305/+345
10.000 ECR 5.00 Baa3 +325/+365
10.000 FFML 5.00 Baa3 +290/+330
10.000 FHLT 5.00 Baa3 +305/+345
10.000 GSAMP 5.00 Baa3 +290/+350
10.000 HEAT 5.00 Baa3 +310/+350
10.000 INABS 5.00 Baa3 +320/+355

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10.000 LBMLT 5.00 Baa3 +310/+350
10.000 MABS 5.00 Baa3 +300/+350
10.000 MLMI 5.00 Baa3 +305/+345
10.000 MSAC 5.00 Baa3 +300/+350

10.000 NCHET 5.00 Baa3 +325/+365
10.000 NHEL 5.00 Baa3 +320/+355
10.000 OOMLT 5.00 Baa3 +305/+345
10.000 PCHLT 5.00 Baa3 +320/+355
10.000 PPSI 5.00 Baa3 +305/+345
10.000 RAMP 5.00 Baa3 +300/+350
10.000 RASC 5.00 Baa3 +305/+345
10.000 SABR 5.00 Baa3 +310/+340
10.000 SAIL 5.00 Baa3 +320/+360
10.000 SAST 5.00 Baa3 +310/+350
10.000 SVHE 5.00 Baa3 +310/+350
10.000 WFHET 5.00 Baa3 +280/+330
10.000 WMC 5.00 Baa3 +290/+340

110805cds@2005-11-8-8.0.31.271249.xls
110805cds@2005-11-8-8.0.35.801977.pdf
OrgSmtpMsg.eml
rmbspaug@2005-10-21-7.58.29.713363.pdf

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greglip@bbotg 08/01/2006 01:46 PM

To: jmilman@bbotg
cc:
Subject: Re: DEEP SUB CASH HOMEQ BWIC TOMORROW AT 2PM

Message Sent: 08/01/2006 14:46:11
From: GREGLIP@BBOTG|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
To: JMILMAN@BBOTG|JORDAN MILMAN|DEUTSCHE BANK SECURI|1726|328663

who has all this crap and let me know which ones to look at looks like a =
lot of
crappy deals....
---- Original Message ----
From: JORDAN MILMAN, DEUTSCHE BANK SECURI
At: 8/01 14:44:53

Deal Tranche Notional CUSIP MDY/S&P/F
AABST 05-5 B6 13.2000 00764MHR1 NR / BB+ / BB crap
AABST 05-5 B7 15.0000 00764MHS9 NR / BB / NR crap
ABSHE 05-HE3 M11 5.0000 04541GRE4 Ba2/ BB / BB
ABSHE 05-HE5 M11 4.7770 04541GST0 Ba2/ BB+ / BB+
ACE 05-HE5 B3 15.0890 004421RS4 NR / BB / NR crap
FHLT 05-D B3 7.2480 35729PMS6 NR / BBB-/ NR crap
FHLT 05-D B4 9.8350 35729PMT4 NR / BB+ / NR crap
LBMLT 04-4 B 9.9740 542514JF2 NR / BB+ / NR carp
LBMLT 04-4 M12 7.5000 542514JE5 NR / BBB-/ NR crap
LBMLT 05-WL1 B1 8.0000 542514LS1 Ba2/ BB+ / BB crap
LBMLT 05-WL1 M10 8.4850 542514LW2 Ba1/ BB+ / BBB- crap
MMLT 05-1 B2 5.0250 59001FCK5 NR / BB / NR crap
PPSI 04-WWF1 M11 5.0000 70069FEA1 Ba1/ BB+ / BB+ crap



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GREGLIP@bloomberg.net Tochris@mastcapllc.com
cc
01/05/2007 01:52 PM bcc
SubjectRE: mroe bang for the bucl

=====Begin Message=====
Message#: 140546
Message Sent: 01/05/2007 13:52:10
From: GREGLIP@bloomberg.net|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
To: chris@mastcapllc.com| | | |
Subject: RE: mroe bang for the bucl

LEAGUE TABLE, FEES, NEVER HAS ONE BLOWN UP YET..BUT ONE REASON THIS STUFF IS WIDENING IS I THINK DEALER HEDGING WHAREHOUSES WITH INDEX
----- Original Message -----
From: Chris Madison <chris@mastcapllc.com>
At: 1/05 13:37:12

That's crazy!!! Why aren't the dealers pulling the plug on the new CDO's....hasn't this widening scared the crap out of them that the counterparties will blow-up?

CBM

-----Original Message-----
From: greglip@bloomberg.net [mailto:greglip@bloomberg.net]
Sent: Friday, January 05, 2007 1:35 PM
To: Chris Madison
Subject: RE: mroe bang for the bucl

WALL STREET FIRMS DURING RAMP UP..100% LEVERAGE...NO MTM ITS ALL DEALER RISK
----- Original Message -----
From: Chris Madison <chris@mastcapllc.com>
At: 1/05 13:33:04

Dumb question....who provides the leverage for the CDO dopes that are levering up just the BBB and BBB- tranches? How much leverage are they getting? And are there any mark-to-market tests that threaten the solvency of the products?

CBM

-----Original Message-----
From: greglip@bloomberg.net [mailto:greglip@bloomberg.net]
Sent: Friday, January 05, 2007 11:37 AM
To: Chris Madison
Subject: mroe bang for the bucl

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Report Footnote #1326

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material impact on any returns detailed. Past performance is not indicative of future returns. Price and availability are subject to change without notice. Additional information is available upon request.

This has been prepared solely for informational purposes. It is not an offer, recommendation or solicitation to buy or sell, nor is it an official confirmation of terms. It is based on information generally available to the public from sources believed to be reliable. No representation is made that it is accurate or complete or that any returns indicated will be achieved. Changes to assumptions may have a material impact on any returns detailed. Past performance is not indicative of future returns. Price and availability are subject to change without notice. Additional information is available upon request.

=====End Message=====

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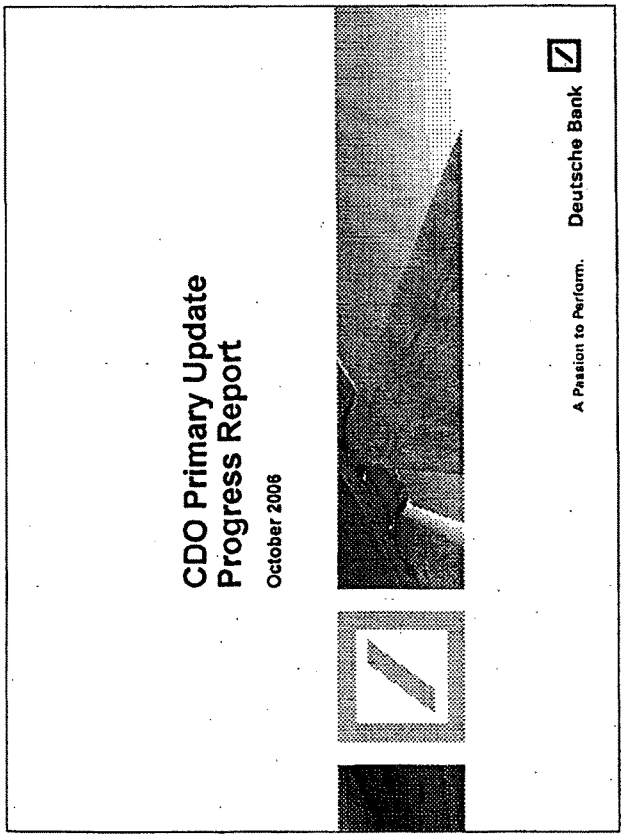
Footnote Exhibits - Page 1008



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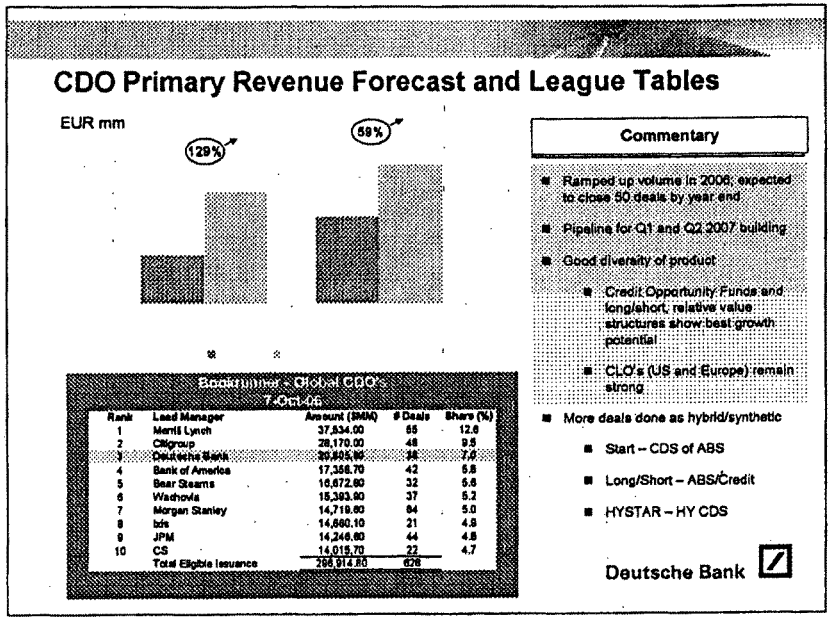

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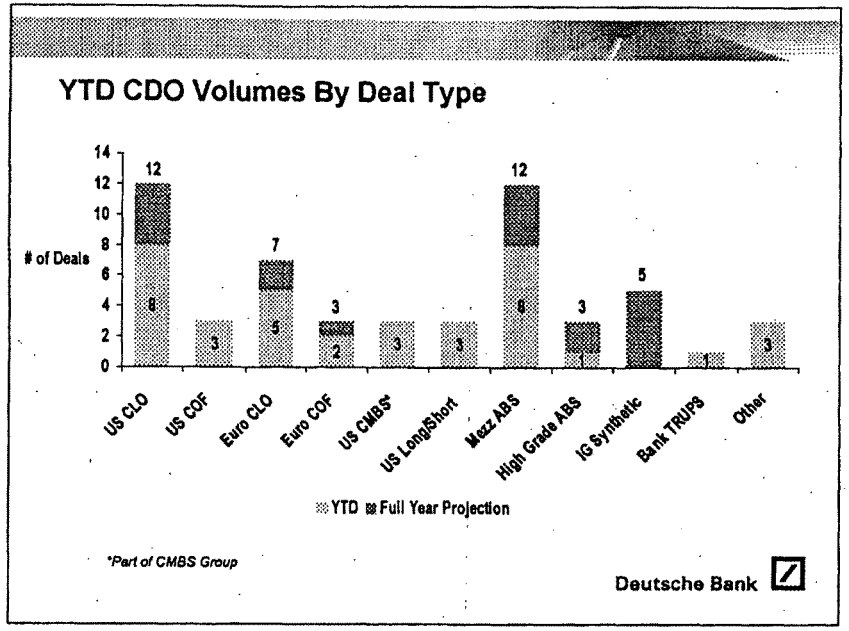
VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 00262 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT



3

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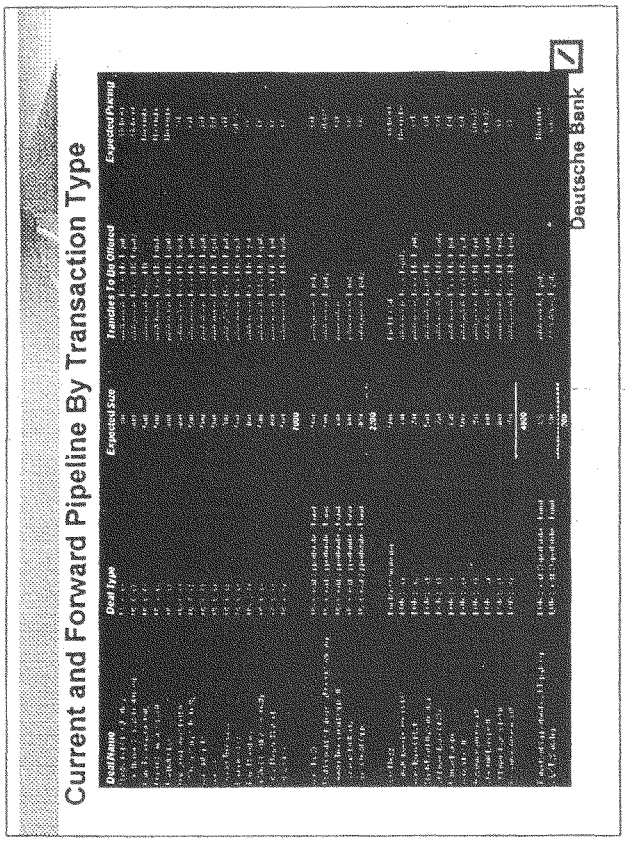

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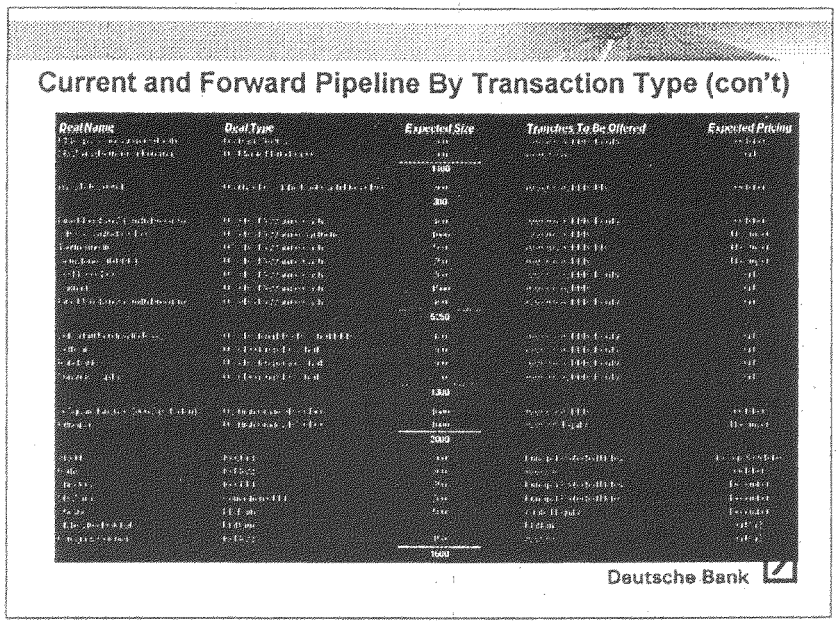

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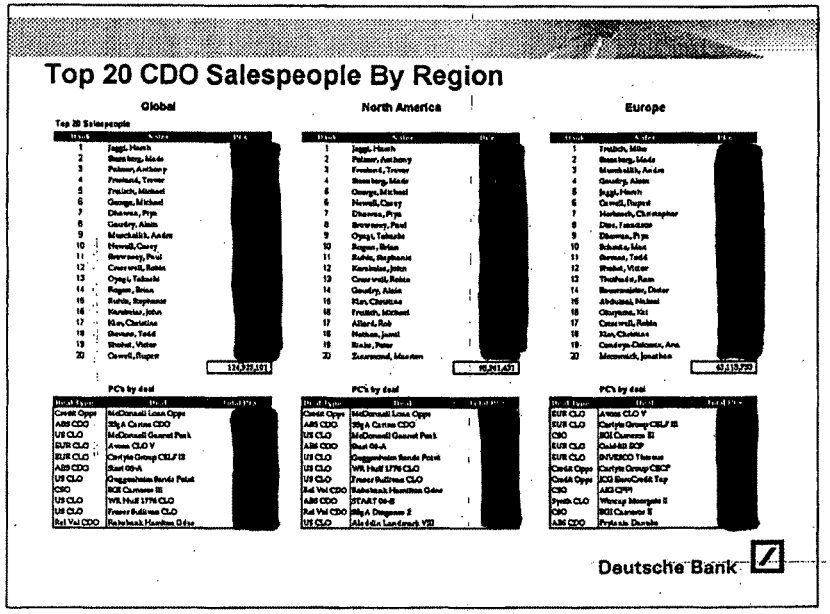

6

DBSI_PSI_EMAIL03970172

66050.263

From: Krishnamurthy, Ananth [ananth@3ainvestors.com]
Sent: Thursday, February 08, 2007 4:05 PM
To: Paolo Pellegrini
Subject: RE: Nice meeting you ...

I am back from the underground.

Crazy volatility, huh?

I know we are incredibly slow given the quick movements in the market.

I have been "intensely" looking at manager selection on this.

I want to confirm something with respect to Paulson's capabilities based on my conversations with you. The attached email is probably helpful as a context point.

Paulson projects defaults and loan performance at a LOAN LEVEL, using your default model incorporating (a) HPA forecasts for the individual loan's geography based on metropolitan area forecasts (using your own sources); and (b) using loan characteristics (all the typical variables from Loan Performance).

Then you aggregate across all the loans to create pool cash flows.

Then you run this through the ABS cash-flow engine (ie: intex).

What makes this hard is that there is no off-the-shelf way to do this and you had to write the code and the plumbing/interfaces.

This allows you for example to compare forecasts for two pools without using a higher level of aggregation. And allows you to compare tranches off two different deals to examine sensitivity to for example specific variables at a loan level.

-----Original Message-----
From: Paolo Pellegrini [mailto:Paolo.Pellegrini@paulsonco.com]
Sent: Sunday, January 14, 2007 4:23 PM
To: ananth@3ainvestors.com
Subject: RE: Nice meeting you ...

Ananth-

The probability of writedown of BBB (not just BBB-) RMBS bonds is bond-specific, although some key inputs are common.

The most important common input is home price appreciation (HPA) nationally, regionally and at the "metropolitan area" level. HPA drives individual loan prepayments, defaults and losses. Another common input is interest rates. Interest rates may affect home price appreciation and consequently, though indirectly, prepayments, defaults and losses. If interest rates result in positive HPA, they may also affect prepayments directly (refinance incentive) and default and losses indirectly (prepaid loans don't default). If interest rates do not result in positive HPA, their direct effect on prepayments and indirect effect on defaults and losses is less important (it is very difficult for subprime borrowers to refinance if their property has not appreciated).

Bond-specific inputs fall into two categories: collateral characteristics; and deal structure.

The most relevant collateral characteristics at origination are FICO, combined loan-to-value ratio (including simultaneous second-lien loans), level of documentation and geographic location (back to HPA). For seasoned collateral, performance after origination, in terms of prepayments, delinquencies, defaults and losses, provides additional insight.

The most relevant deal characteristics are overcollateralization, excess spread, step-down triggers and interest rate exposure. We focus primarily on overcollateralization and the so-called delinquency trigger. Excess spread (including the effect of unhedged interest rate
exposure) is more important for residual holders than for debt holders, given the timing of realization of losses. Also because of the timing of realization of losses, the cumulative loss trigger (the other step-down
trigger) is usually inconsequential.

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We evaluate the prospects for home price appreciation with the help of our board of advisors. Not only do we believe that home prices are overvalued on most measures, but we also believe that the Federal Reserve will have to manage interest rates in order to restrain households' continuing equity extraction from their homes at the current unsustainable rate ($400 billion annualized as of the most recent quarterly reading). Even though subprime borrowers are suffering from excessive leverage and debt-service burden, mainstream borrowers still have enormous leverage capacity, predicated on arguably overvalued real estate holdings. Increasing leverage drives consumption and the trade deficit and leaves the dollar and U.S. long-term rates at the mercy of foreign investors' willingness to recycle export receipts into U.S. financial assets, a very unstable arrangement.

It is true that the market is not pricing the subprime RMBS wipeout scenario. In my opinion this situation is due to the fact that rating agencies, CDO managers and underwriters have all the incentives to keep the game going, while "real-money" investors have neither the analytical tools nor the institutional framework to take action before the losses that one could anticipate based the "news" available everywhere are actually realized.

If you want to discuss specific analyses of bond expected losses, we could set up a conference call for the week of the 22nd. I will be in Wyoming but I can do early calls before I go skiing.

Please let me know.

Paolo

-----Original Message-----
From: Krishnamurthy, Ananth [mailto:ananth@3ainvestors.com]
Sent: Friday, January 12, 2007 3:17 PM
To: Paolo Pellegrini
Subject: Re: Nice meeting you ...

We can do that. The core focus is what the logical underpinning - very granularly - is for a wipeout of the BBB-. In some sense it doesn't take much. But how plausible is it. Clearly the market is not pricing this scenario. It is looking for serial downgrades and pricing to next event, ie: just spread widening. Why does this disconnect exist?
Jacob, for example, would say - "the news is everywhere, why isn't this priced in already?"

-----Original Message-----
From: "Paolo Pellegrini" <Paolo.Pellegrini@paulsonco.com>
Date: Fri, 12 Jan 2007 15:11:39
To:<ananth@3ainvestors.com>
Subject: RE: Nice meeting you ...

I am out that week and back in the office on the 31st. Please let me know if you want to meet after the 31st. Thanks.

-----Original Message-----
From: Krishnamurthy, Ananth [mailto:ananth@3ainvestors.com]
Sent: Friday, January 12, 2007 3:08 PM
To: Paolo Pellegrini
Subject: Re: Nice meeting you ...

Hi - thx for getting back to me. I am keen to hear your thoughts on this. However, I am travelling next week. Can I circle up with you week of 22nd?

-----Original Message-----
From: "Paolo Pellegrini" <Paolo.Pellegrini@paulsonco.com>
Date: Fri, 12 Jan 2007 13:15:21
To:<ananth@3ainvestors.com>
Subject: RE: Nice meeting you ...

Ananth-

Sorry for the delay responding to you. I am available next week. We have our advisory board meeting on Tue pm and I will be in a better position to address your home price question after that. If you have anything specific that you want me to ask

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of our board please let me know.
Otherwise, please suggest times that work for you on Thu (excl. 10-11 am0 or Fri.

Regards.

-----Original Message-----
From: Krishnamurthy, Ananth [mailto:ananth@3ainvestors.com]
Sent: Tuesday, January 09, 2007 4:12 PM
To: Paolo Pellegrini
Subject: RE: Nice meeting you ...

Hi - have read all the stuff.
I know market has moved nicely in your favor.
Kudos!

Would still be interested in continuing conversation.

My core focus in talking with you will be on your homeprice deterioration thesis. Seems like the market is not pricing in a washout of BBB-s. Worst quartile of the index still has a 500bps average spread. If it were pricing in a wipeout, it would be trading 30c on the dollar.

Let me know when you have some time to speak.

Thanks

Ananth

-----Original Message-----
From: Paolo Pellegrini [mailto:Paolo.Pellegrini@paulsonco.com]
Sent: Wednesday, December 20, 2006 7:22 AM
To: ananth@3ainvestors.com
Subject: Nice meeting you ...

Ananth-

I wish I had learned of your background and relationship with Jacob earlier in our conversation -- I would have been a little more specific in my remarks.

Redacted by the Permanent Subcommittee on Investigations

With respect to Andy's comments that Intex makes modeling errors, I would note that he cites his experience working on busted manufactured housing deals five years back as the basis for his assessment. I think that Intex has come a long way in terms of quality control. Besides, as John was saying, in this market we can make good trading decisions with our existing analytics. However, we will hire more people with relevant experience including somebody who could focus on reverse engineering the Intex models as such effort becomes more relevant.

We have a very good relationship with Intex and have urged them to allow hosting of their data by 1010data and made some progress. Aside from being a cash flow engine, Intex is really a database partly overlapping with LoanPerformance, partly additive to LP with respect to loan prepayment terms including penalties. In the context of analyzing seasoned deals, of which we do not do much now but will in the future, cross-checking monthly data between LP and Intex will be valuable.

As for our research infrastructure, I am very happy with the choices we have made. I mentioned that we get loan data from LoanPerformance, historical and projected home price data from FISERV/Economy.com and deal data from Intex. Two decisions, however, put us ahead of the pack.
The first such decision was to host LP and FISERV on 1010data. The second was to forgo integration of the LoanPerformance RiskModel into our analytical platform and to develop instead our proprietary, and extremely parsimonious, prepayment, default and severity model. The use of 1010data enabled the second decision because it made possible to analyze historical data easily, quickly and with minimal initial setup time. Had we gone with LP RiskModel we would be stuck with a white elephant in the middle of a very deep river. Even with Andrew Davidson's more compact model, it will be a stretch to find a processing platform that can deliver meningful results in a reasonable timeframe (I guess

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10+ parallel processors on PolyPaths).

I am sure John explained our various strategies, including reverse inquiry sponsorship of bespoke CDOs, both fully-capitalized and synthetically tranched. You might be interested in learning more.

Please say hello to Jacob and call me if you want to talk further.

Best regards.

Paolo M. Pellegrini
Vice President
Paulson & Co. Inc.
590 Madison Avenue, 29th Floor
New York, NY 10022
Phone: (212) 956-4129 (direct)
(212) 956-2221 (main)
(212) 977-9505 (fax)

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Richard R
Kim/NewYork/DBNA/DeuBa@DBAMERICAS

06/14/2007 09:22 AM

To Greg Lippmann/NewYork/DBNA/DeuBa@DBAMERICAS@DEUBAINT
cc michael.herzig@db.com
bcc
Subject Kleros 8

This along with our remaining held inventory if we can't sell away we repack into a CDO^2 balance sheet dump later this summer
Worst case we hold it but it is probably the lesser of two evils (the greater evil being our held START position)
Same thing on the Libertas bond

Greg Lippmann/NewYork/DBNA/DeuBa@DBAMERICAS
06/14/2007 09:20 AM

To Richard R Kim/NewYork/DBNA/DeuBa@DBAMERICAS@DEUBAINT
cc michael.herzig@db.com
Subject Re: Kleros 8(Document link: Richard R Kim)

ok and then what to you do with theirs?

Greg H. Lippmann
Managing Director
Deutsche Bank Securities Inc.
3rd Floor
60 Wall Street
New York, New York 10005
Phone (212) 250-7730
Fax (212) 797-2201
Mobile (917) [redacted]
greg.lippmann@db.com

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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Greg
Lippmann/NewYork/DBNA/DeuBa@DBAMERICAS

12/04/2006 12:58 PM

To Kent
Baum/SanFrancisco/DBNA/DeuBa@DBAmericas
cc
bcc
Subject Re: Losers

the abs are all in cdos...who owns the cdos, aaa (sliced of bbb abs) insurance company and german and asian banks....aa, european and asian banks and high grade cdos (can you say ponzi scheme) bbb more of the same and mezz cdos (every mezz cdo has 5-15% other mezz cdos) equity hedge funds and insurance companies in asia

Greg H. Lippmann
Managing Director
Deutsche Bank Securities Inc.
3rd Floor
60 Wall Street
New York, New York 10005
Phone (212) 250-7730
Fax (212) 797-2201
Mobile (917) [redacted]
greg.lippmann@db.com

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Kent
Baum/SanFrancisco/DBNA/DeuBa

12/04/2006 12:41 PM

To

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Wall Street & The Financial Crisis
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Greg
Lippmann/NewYork/DBNA/DeuBa@DBAmericas

cc

Subject

Re: Losers (Document link: Greg
Lippmann)

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Greg: So who in the public market owns all of these ABS securities that beginning to lose value?
Kent

Kent T. Baum
Client Advisor
Managing Director
Deutsche Bank Alex. Brown
A division of Deutsche Bank Securities Inc.
101 California Street, Ste. 4600
San Francisco, CA 94111
kent.baum@db.com
Tel: 415-617-2806
Fax: 415-617-4270
Toll Free: 1-800-334-2640, Ext. 2806

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GREGLIP@bloomberg.net ToWITTFAB.LNDB@bloomberg.net
cc
02/27/2007 06:56 AM bcc
SubjectRe: Fwd: WSJ C1: Subprime Game's Reckoning DayRisky Lendding

=====Begin Message=====
Message#: 104008
Message Sent: 02/27/2007 06:56:53
From: GREGLIP@bloomberg.net|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
To: WITTFAB.LNDB@bloomberg.net|FABRIZIO WITTENBURG|DEUTSCHE BANK AG, LO|1726|644694
Subject: Re: Fwd: WSJ C1: Subprime Game's Reckoning DayRisky Lendding

the other side is all cdos..so it is the cdo investors who r on the other side who buys cdos: aaa - reinsurance, ws conduits, european and asian banks, aa - high grade cdos, europoean and asian banks and insurers..some us insurers, bbb - ohter mezz abs cdos (i.e. ponzi scheme), european banks and insurers, equity some us hedge funds, asian insurance companies, australian and japanese retail investors through mutual funds
----- Original Message -----
From: FABRIZIO WITTENBURG, DEUTSCHE BANK AG, LO
At: 2/27 6:41:43

greg, have been sharing your update yday with the european and asian desks here....they're v interested....my question is, who is on the other side of the trade -- you mentioned reinsurance companies (bermuda, european?) and hedge funds (fixed income, macro?)....is much of the risk at banks (commerical/investment bank?)....great work! fabrizio

----- Original Message -----
From: GREG LIPPMANN, DEUTSCHE BANK SECURI
At: 2/27 11:37:45

----- Original Message -----
From: GREG LIPPMANN, DEUTSCHE BANK SECURI
At: 2/27 6:37:36

http://online.wsj.com/article_print/SB117254449192920225.html

"Subprime Game's Reckoning Day
Risky Lending Fallout
Threatens to Spread;
Uncertain ARM Strength
By KAREN RICHARDSON and GREGORY ZUCKERMAN
February 27, 2007; Page C1

The worst may be yet to come for mortgage lenders. And that could add to investor nervousness.

Shares of companies that specialize in lending to riskier borrowers or offer unconventional loans have tumbled because of concerns over how rapidly these mortgages are going sour.

If these so-called subprime borrowers continue to have problems paying their debts, the lenders that target them likely will have to boost how much money they set aside for bad loans, cutting into their bottom lines. That could mean

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even lower stock prices.

There also is a concern that if the real-estate market remains cool, some borrowers with better credit histories might also begin struggling to make payments on certain popular, but unorthodox, mortgages. These types of loans allow borrowers to skip monthly payments, carry low short-term teaser rates or don't require detailed financial documentation. If that happens, companies such as BankUnited Financial Corp. and Countrywide Financial Corp. could suffer.

When a company keeps its reserve low, it makes its earnings look better because it continues to increase its assets from loans it originates and sells off. That holds down expenses.

But when a company beefs up those reserves and the change hits its earnings, that can impair its ability to borrow the short-term funds needed to write new mortgages. Lenders need to set aside reserves to cover any possible losses when borrowers fail to make payments.

Subprime-mortgage lenders generally sell most of their loans to investors, but many keep some loans as investments. These portfolios have grown as the number of new mortgages has risen.

New Century Financial Corp. and NovaStar Financial Inc. hold billions of dollars of loans for investment. While they have been increasing their loan-loss provisions, delinquencies have been coming faster than anticipated.

NovaStar's reserves were 1.05% of its $2.1 billion in loans held for investment in the fourth quarter, up from 0.75% in the third quarter, but still ranked among the lowest in the industry, according to Zach Gast, an analyst at the Center for Financial Research and Analysis. New Century's ratio was 1.4% as of the third quarter. CFRA doesn't assign ratings on stocks.

Scott Hartman, chief executive of NovaStar, says the lender made a "substantial increase to our loan-loss reserve" in the past quarter, and that about half of those loans "tend to be of higher quality and generally performing very well."

New Century, which has said it will restate earnings for the first three quarters of 2006 to correct accounting errors regarding repurchased loans, declined to comment.

Subprime-mortgage lenders are likely to start reporting significant shortfalls in their loss reserves "as soon as the next several quarters," predicts David Honold, an analyst at Turner Investment Partners, which manages $23 billion and has avoided shares of subprime lenders. That is partly because some of the lenders could place into their investment-loan portfolio some poorly performing mortgages that they have bought back under terms of their sale agreement. That would require them to boost loan-loss reserves.

Subprime lenders already have seen their shares tumble -- NovaStar is off 50% and New Century is down 12% in the past 10 days -- and they could fall further if their credit-lines dry up because of poor loan-loss provisioning. NovaStar shares are trading at about 12 times estimated per-share earnings, but that valuation is likely to change as analysts adjust their projections to account for the company's steep fourth-quarter loss and poor earnings outlook. New Century shares also are trading at about 12 times estimated earnings for 2007.

Some investors urge caution about lenders that cater to borrowers with better credit but focus on mortgages that may suffer if weakness in housing continues, such as option adjustable-rate mortgages, or ARMs. These loans give borrowers multiple payment options, including a minimum payment that might not cover all of the monthly interest cost. The remainder of the interest payment is tacked onto the outstanding balance, causing it to rise.

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About 59% of BankUnited's approximately $11.5 billion loan portfolio is made up of these loans and the bank is making more of them as it expands.

Countrywide has been cutting back on pay-option mortgages, funding just $2.7 billion in January out of a total $37 billion in new mortgages. Still, it has "significant exposure" to these risky loans, CFRA's Mr. Gast says. Countrywide declined to comment.

BankUnited acknowledges that borrowers are paying less of their monthly interest payments as interest rates have moved higher, and about 50% of the bank's loans have been made to residents of Florida, a weak real-estate market. And since BankUnited keeps about 70% of these loans in its own portfolio, if the borrowers run into problems it could hurt the company's earnings.

BankUnited shares, which fell 83 cents, or 3.2%, to $25.06 in 4 p.m. composite trading yesterday on the Nasdaq Stock Market, are trading at almost nine times its expected per-share earnings over the next year.

Under accounting rules, BankUnited counts the unpaid interest payments as revenue, however. So if a borrower pays the contractual minimum of $500 a month, rather than the $1,000 interest-only amount, the bank can count the remaining $500 as revenue. That is because it is assumed it will be repaid down the road. This revenue is a rising slice of its earnings, according to an analysis by Keefe, Bruyette & Woods.

Humberto Lopez, BankUnited's chief financial officer, says the bank focuses on borrowers with high credit scores who generally put down at least 20% of the purchase price on a home. "Our borrowers have the financial wherewithal, and they've earned the right to have options of payments," Mr. Lopez says. "We haven't seen any weakness in their ability to pay."
"

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"GREG LIPPMANN, DEUTSCHE BANK SECURI" <greglip@bloomberg.net>

Sent by:
greglip@bloomberg.net

02/20/2007 01:33 PM

To Michael Lamont/NewYork/DBNA/DeuBa@DBAmericas
cc
bcc
Subject Re: Fwd: how is the cdo machine doing these days? can u sti

thanks for the update...going to get a lot bumpier very soon....lets get the finkel deal out the door...
----- Original Message -----
From: Michael Lamont <michael.lamont@db.com>
At: 2/20 13:30:22

Good color I am out w a fever back tomorrow

After reflection I think the biggest issue for dealers are the cdo2. For the giant magnetar rmbs cdo deals the situation isn't great, but the aa/aaa/ss probably clear at a level, and the dealer can play games w the SS -- sell junior piece, keep 60-top, mark not observable, dealer takes down bbb and a, sticks equity to hedge fund like magnetar at equity floor, maybe loses 5-15 after fees. The bbb/a cdo2 backed by mid/late 2006 vintage are the lose your job problem I think, not sure how any deals will clear. And for hi grade abs cdos. ML did 26bln of hi grade last year, 25-35% cdo mostly aa some a. Say conservatively they have 10bln in ramp up so 3 bln of a/aa cdo, if the mkt starts to price their hi grade like cdo2 in addition to their cdo2 ramping of bbb/a (1bln?2bln? ramped) they will have an even worse problem. Same problem at citi--I think they are relatively ok on mezz abs risk but not on cdo2.

Calyon pulled out of ralph choffee mezz deal, won't do SS, we were next in line, ralph now coming to us. Calyon are rumored to have 12bln of risk on their lines At the same time cifg and mbia still writing tickets (mbia did a magnetar type deal last week, structural change to) get them in was oc test in principal waterfall not interest waterfall.
Sent from my Blackberry Wireless

Mr. Michael Lamont
Managing Director
Deutsche Bank Securities Inc.
60 Wall Street, 19th Floor
New York, NY, USA
Telephone: +1(212)250-8708
Mobile: +1 917-[redacted]
E-Mail: michael.lamont@db.com

[redacted] = Redacted by the Permanent Subcommittee on Investigations

----- Original Message -----
From: "GREG LIPPMANN, DEUTSCHE BANK SECURI" [greglip@bloomberg.net]
Sent: 02/20/2007 01:04 PM
To: undisclosed-recipients:;
Subject: Fwd: how is the cdo machine doing these days? can u still plac

---
Sent From Bloomberg Mobile MSG

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1341

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---- Original Message ----
From: DAVID HOMAN, MOORE CAPITAL MANAGE
At: 2/20/2007 11:20

how is the cdo machine doing these days? can u still place cdo paper? are they still ramping in this environment?
Reply:
GETTING SLOWER BUT NOT DEAD YET...2-5 RAMPING A DAY INSTEAD OF 10-15...HEARING OF MANY INVESTORS IN ASIA ESPECALLY SHUTTING DOW N POST HSBC NEWS BUT THE WINDOW IS NOT COMPLETELY SHUT YET (THEY MAY BE DEALS THAT WERE LARGELY RAMPED THAT R JUST FINISHING..)
Reply:
i hear rumors that ML, BS, GS, C have asked CDOs less than 50% ramped to basically stop ramping. Have you heard anything along these lines? What are the implications for mkt if this is true?

This has been prepared solely for informational purposes. It is not an offer, recommendation or solicitation to buy or sell, nor is it an official confirmation of terms. It is based on information generally available to the public from sources believed to be reliable. No representation is made that it is accurate or complete or that any returns indicated will be achieved. Changes to assumptions may have a material impact on any returns detailed. Past performance is not indicative of future returns. Price and availability are subject to change without notice. Additional information is available upon request.

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Footnote Exhibits - Page 1027

Abhayad Kamat/NewYork/DBNA/DeuBa@DBAMERICAS

02/21/2007 09:08 PM

To Michael Lamont/NewYork/DBNA/DeuBa, michael.herzig@db.com, anthony.pawlowski@db.com, Ilinca R Bogza/NewYork/DBNA/DeuBa@DBNA@DEUBAINT

cc

bcc

Subject Fw: ** UPDATE $[1.1]BLN GEMSTONE VII ** REVISED TALK **

double digit PCs for BBBs?
i guess my original offer of 300 on single-As and 600 on triple-Bs is too low... what can we offer?

i would like these guys to push Asia sales on this..., but also as Ilinca said, the question arises why weren't they working on this thus far? the feedback they gave Ilinca is that all warehouses are shut down...

----- Forwarded by Abhayad Kamat/NewYork/DBNA/DeuBa on 02/21/2007 09:00 PM -----

Sheree Ma/db/dbcom@DBAPAC

02/21/2007 08:59 PM

To

Abhayad Kamat/NewYork/DBNA/DeuBa@DBAMERICAS

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1342

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66050.277

cc

Anirban Lahiri/SP/DBAsia/DeuBa@DBAPAC, Ilinca R Bogza/NewYork/DBNA/DeuBa@DBNA, Ryan Lee/db/dbcom@DBAPAC

Subject

Re: Fw: ** UPDATE ${1.1}BLN GEMSTONE VII ** REVISED TALK **(Document link: Abhayad Kamat)

Hi,

Any special PC arrangements for these bonds pls?? Coz we are also pushing sales on Wharton BBB which is at similar pricing (flex available) and paying double digits PC....

Thanks
Sheree

Sheree Ma
Deutsche Bank AG

Hong Kong: +852 2203 8521
Mobile: [redacted]
Email: sheree.ma@db.com

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Abhayad
Kamat/NewYork/DBNA/DeuBa@DBAMERICAS

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02/21/2007 04:17
PM

To

Anirban Lahiri/SP/DBAsia/DeuBa@DBAPAC, Sheree
Ma/db/dbcom@DBAPAC

cc

Ilinca R
Bogza/NewYork/DBNA/DeuBa@DBNA@DEUBAINT

Subject

Fw: ** UPDATE $[1.1]BLN GEMSTONE VII ** REVISED TALK
**

here's the mktg book. thanks.

[attachment "Gemstone VII Debt Book 02.08.07 FINAL.pdf" deleted by Sheree Ma/db/dbcom]

----- Forwarded by Abhayad Kamat/NewYork/DBNA/DeuBa on 02/21/2007 11:15 AM -----

Abhayad
Kamat/NewYork/DBNA/DeuBa

02/21/2007 11:13
AM

To

Anirban Lahiri/SP/DBAsia/DeuBa, Sheree
Ma

cc

Ilinca R
Bogza/NewYork/DBNA/DeuBa@DBNA@DEUBAINT

VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 00284 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

66050.282

Subject

Fw: ** UPDATE ${1.1}BLN GEMSTONE VII ** REVISED TALK
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VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 00285 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

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Guys,
we need help on selling the As and BBBs in the Gemstone CDO 7 transaction -- we have nearly 50% unsold on both tranches in the transaction. We have widened talk to 265 on the As and to 500 on the BBBs - see Ilinca's email below.

- i am also fwding you the latest HBK mktg book.
- any help from you on the As, BBBs and senior AAAs would be appreciated.
- on the senior AAAs, we are flexible to work with accounts at different subordination points and spread targets.

Here is a quick summary of the transaction and manager:
- this is HBK's eight CDO
- 2 year short revolving period -- can revolve in investment grade assets only
- 27% below IG bucket (BBs) but amortizations on this bucket are used to pay down notes -- no reinvestment in below IG bucket
- HBK retains entire BB and Equity, similar to what they have done in all their prior deals. HBK views their CDOs as financing trades, where they retain the equity and use the CDO to get levered returns.
- the 27% BB bucket is standard in their deals -- these are very similar to the C-BASS deals in the market...
- HBK's loan level analysis of RMBS pools is highly regarded in the market. HBK helps structure ~55% of the underlying RMBS in this transaction and retains the residual piece on those also.

- this CDO has pure sequential structure with OC and IC tests -- as opposed to most deals in the market which have pro-rata structure
- the BBB tranche has a turbo mechanic that helps it to pay down faster.

Are there any accounts that might be interested in this, given the good manager name, good alignment of interest with investors, sequential paydown structure, OC/IC tests, BBB turbo and wider price talk? any help appreciated.

thanks,
Abhayad

Abhayad Kamat
Global CDO Group
Deutsche Bank Securities Inc.
60 Wall Street, 19th Floor,
New York, NY 10005-2858
(212) 250-0526 work
(917) [redacted] cell
(732) 578-2890 fax

Redacted by the Permanent Subcommittee on Investigations

----- Forwarded by Abhayad Kamat/NewYork/DBNA/DeuBa on 02/21/2007 10:39 AM -----

"ILINCA BOGZA, DEUTSCHE BANK SECURI"
<ibogza@bloomberg.net>

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66050.284

Sent by:
ibogza@bloomberg.net

To

undisclosed-
recipients:;

02/20/2007 03:17
PM

cc

Footnote Exhibits - Page 1036

Subject

** UPDATE ${1.1}BLN GEMSTONE VII ** REVISED TALK
**

VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 00288 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

66050.286

** UPDATE GEMSTONE CDO 7, A $[1.1]BLN MEZZANINE ABS CDO MANAGED BY HBK

** EXPECTED PRICING FEB [21ST].

CLASS	RATING(M/S)	SIZE(MM)	SIZE(%)	WAL(YR)	PRICE TALK	IOI
A-1	Aaa/AAA	[716.0]	[65.0]	[3.2]	* CALL DESK *	---
A-2	Aaa/AAA	[87.0]	[7.9]	[5.3]	* NOT OFFERED *	---
B	Aa2/AA	[96.9]	[8.8]	[6.0]	L+ [0.62% AREA]	90%
C	A2/A	[68.3]	[6.2]	[6.3]	L+ [2.65% AREA]	75%
D	Baa2/BBB	[55.1]	[5.0]	[5.7]	L+ [5.00% AREA]	75%
E	Ba1/BB+	[18.7]	[1.7]	[6.3]	* CALL DESK *	---
SUB		[59.5]	[5.4]			

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IMPORTANT NOTICE

Attached please find an electronic copy of the Offering Circular (the **"Offering Circular"**), dated March 15, 2007 relating to the offering of certain notes (the **"Notes"**) of GEMSTONE CDO VII LTD. (the **"Issuer"**) and GEMSTONE CDO VII CORP. (the **"Co-Issuer"** and together with the Issuer, the **"Issuers"**).

The Offering Circular is highly confidential and does not constitute an offer to any person, other than the recipient, or to the public generally to subscribe for or otherwise acquire any of the securities described therein.

Distribution of this electronic transmission of the Offering Circular to any person other than (a) the person receiving this electronic transmission from Deutsche Bank Securities Inc. as Initial Purchaser on behalf of the Issuers, and (b) any person retained to advise the person receiving this electronic transmission with respect to the offering contemplated by the Offering Circular (each, an **"Authorized Recipient"**) is unauthorized. Any photocopying, disclosure or alteration of the contents of the Offering Circular, and any forwarding of a copy of the Offering Circular or any portion thereof by electronic mail or any other means to any person other than an Authorized Recipient, is prohibited. By accepting delivery of this Offering Circular, each recipient hereof agrees to the foregoing.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1343

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Gemstone CDO VII Ltd.
Gemstone CDO VII Corp.
U.S.$244,000,000 Class A-1a Floating Rate Notes Due December 2045
U.S.$400,000,000 Class A-1b Floating Rate Notes Due December 2045
U.S.$159,000,000 Class A-2 Floating Rate Notes Due December 2045
U.S.$96,900,000 Class B Floating Rate Notes Due December 2045
U.S.$68,300,000 Class C Floating Rate Deferrable Interest Notes Due December 2045
U.S.$55,100,000 Class D Floating Rate Deferrable Interest Notes Due December 2045
U.S.$18,700,000 Class E Floating Rate Deferrable Interest Notes Due December 2045
U.S.$59,500,000 Preference Shares
Secured by a Portfolio of Asset-Backed Securities

Gemstone CDO VII Ltd., an exempted company with limited liability incorporated under the laws of the Cayman Islands (the "**Issuer**"), and Gemstone CDO VII Corp., a Delaware corporation (the "**Co-Issuer**" and, together with the Issuer, the "**Issuers**"), will issue U.S.$244,000,000 Class A-1a Floating Rate Notes Due December 2045 (the "**Class A-1a Notes**"), U.S.$400,000,000 Class A-1b Floating Rate Notes Due December 2045 (the "**Class A-1b Notes**" and, together with the Class A-1a Notes, the "**Class A-1 Notes**"), U.S.$159,000,000 Class A-2 Floating Rate Notes Due December 2045 (the "**Class A-2 Notes**") and, together with the Class A-1 Notes, the "**Class A Notes**"), U.S.$96,900,000 Class B Floating Rate Notes Due December 2045 (the "**Class B Notes**"), U.S.$68,300,000 Class C Floating Rate Deferrable Interest Notes Due December 2045 (the "**Class C Notes**"), U.S.$55,100,000 Class D Floating Rate Deferrable Interest Notes Due December 2045 (the "**Class D Notes**") and U.S.$18,700,000 Class E Floating Rate Deferrable Interest Notes Due December 2045 (the "**Class E Notes**" and, together with the Class A Notes, Class B Notes, Class C Notes and Class D Notes, the "**Notes**"). The Notes will be issued and secured pursuant to an Indenture dated as of March 15, 2007 (the "**Indenture**"), among the Issuer, the Co-Issuer and Deutsche Bank Trust Company Americas, as trustee (the "**Trustee**"). The Collateral securing the Notes will be managed by HBK Investments L.P. (together with its affiliated subadvisors, the "**Collateral Manager**"). (*continued on next page*)

It is a condition to the issuance of the Notes that the Class A-1 Notes be rated "Aaa" by Moody's Investors Service, Inc. ("**Moody's**") and "AAA" by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("**Standard & Poor's**" and, together with Moody's, the "**Rating Agencies**"), that the Class A-2 Notes be rated "Aaa" by Moody's and "AAA" by Standard & Poor's, that the Class B Notes be rated at least "Aa2" by Moody's and "AA" by Standard & Poor's, that the Class C Notes be rated at least "A2" by Moody's and "A" by Standard & Poor's, that the Class D Notes be rated at least "Baa2" by Moody's and "BBB" by Standard & Poor's and that the Class E Notes be rated at least "Ba1" by Moody's and "BB+" by Standard & Poor's. The Preference Shares will not be rated.

This document constitutes a prospectus under the Prospectus Directive. The "**Prospectus Directive**" means Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading.

Application will be made to the Irish Financial Services Regulatory Authority, as competent authority under Directive 2003/71/EC, for the prospectus to be approved. Application will be made to the Irish Stock Exchange to admit the Notes to the Official List and trading on its regulated market. Such approval will relate only to Notes which are to be admitted to trading on the regulated market of the Irish Stock Exchange or other regulated markets for the purposes of Directive 93/22/EEC or which are to be offered to the public in any Member State of the European Economic Area. There can be no assurance that such admission will be granted. No application will be made to list the Notes on any other stock exchange.

Investing in the Notes involves risks. See "Risk Factors" starting on page 25.

THE PLEDGED ASSETS OF THE ISSUER ARE THE SOLE SOURCE OF PAYMENTS ON THE NOTES AND THE PREFERENCE SHARES. THE NOTES AND THE PREFERENCE SHARES DO NOT REPRESENT AN INTEREST IN OR OBLIGATIONS OF, AND ARE NOT INSURED OR GUARANTEED BY, THE TRUSTEE, THE COLLATERAL MANAGER, DEUTSCHE BANK SECURITIES INC. ("**DBSI**" OR THE "**INITIAL PURCHASER**"), ANY OF ITS AFFILIATES OR ANY OTHER PERSON OR ENTITY.

THE NOTES AND PREFERENCE SHARES 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. NEITHER THE ISSUER NOR THE CO-ISSUER IS OR WILL BE REGISTERED UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "**INVESTMENT COMPANY ACT**"), IN RELIANCE UPON THE EXCLUSION PROVIDED BY SECTION 3(c)(7) THEREOF. THE NOTES AND PREFERENCE SHARES ARE BEING OFFERED (A) IN THE UNITED STATES IN RELIANCE UPON AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT (I) PROVIDED BY SECTION 4(2) THEREOF TO A LIMITED NUMBER OF INSTITUTIONAL ACCREDITED INVESTORS WITHIN THE MEANING OF RULE 501(a)(1), (2), (3) or (7) UNDER THE SECURITIES ACT, OR (II) PURSUANT TO RULE 144A UNDER THE SECURITIES ACT ("**RULE 144A**") TO "QUALIFIED INSTITUTIONAL BUYERS" (AS DEFINED IN RULE 144A), AND (B) OUTSIDE THE UNITED STATES TO PERSONS WHO ARE NOT U.S. PERSONS (AS DEFINED IN REGULATION S) IN OFFSHORE TRANSACTIONS IN RELIANCE ON REGULATION S UNDER THE SECURITIES ACT ("**REGULATION S**") AND, IN EACH CASE, IN ACCORDANCE WITH APPLICABLE LAWS. THE NOTES AND PREFERENCE SHARES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO OR FOR THE ACCOUNT OR BENEFIT OF U.S. PERSONS EXCEPT TO QUALIFIED PURCHASERS (WITHIN THE MEANING OF THE INVESTMENT COMPANY ACT AND THE RULES THEREUNDER). EACH PURCHASER OF NOTES OR PREFERENCE SHARES WILL BE DEEMED TO HAVE MADE OR WILL BE REQUIRED TO MAKE CERTAIN ACKNOWLEDGMENTS, REPRESENTATIONS AND AGREEMENTS AS SET FORTH UNDER "TRANSFER RESTRICTIONS." A TRANSFER OF NOTES OR PREFERENCE SHARES (OR ANY INTEREST THEREIN) IS SUBJECT TO CERTAIN RESTRICTIONS DESCRIBED HEREIN, INCLUDING THAT NO SALE, PLEDGE, TRANSFER OR EXCHANGE MAY BE MADE IN A DENOMINATION LESS THAN THE REQUIRED MINIMUM DENOMINATION. SEE "TRANSFER RESTRICTIONS."

The Notes are offered by the Initial Purchaser at varying prices determined in each case at the time of sale, subject to prior sale, when, as and if issued, the approval of certain legal matters by counsel and the satisfaction of certain other conditions. The Initial Purchaser reserves the right to withdraw, cancel or modify such offer and to reject orders in whole or in part. It is expected that the Notes will be delivered on or about March 15, 2007 (the "**Closing Date**") through the facilities of The Depository Trust Company ("**DTC**"), Euroclear Bank S.A./N.V., and Clearstream Banking, *société anonyme*, against payment therefor in immediately available funds. The Preference Shares will be initially placed by the Issuer to a single investor. It is a condition to the issuance of each of the Notes and the Preference Shares that all of the Notes and the Preference Shares be issued concurrently.

DEUTSCHE BANK SECURITIES INC.

The date of this Offering Circular is March 15, 2007

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(cover continued)

Concurrently with the issuance of the Notes, the Issuer will issue 59,500 Preference Shares pursuant to the Memorandum and Articles of Association of the Issuer (the **"Issuer Charter"**) and in accordance with a Preference Share Paying Agency Agreement dated as of March 15, 2007 (the **"Preference Share Paying Agency Agreement"**), among the Issuer, Deutsche Bank Trust Company Americas, acting through an affiliate or agent outside the United States as preference share paying agent and preference share transfer agent (in such capacities, the **"Preference Share Paying Agent"** and the **"Preference Share Transfer Agent"**) and Deutsche Bank (Cayman) Limited as the share registrar (in such capacity, the **"Share Registrar"**).

Interest on the Notes will be payable in U.S. dollars in arrears on each Payment Date. Payments of principal of and interest on the Notes on any Distribution Date will be made if and to the extent that funds are available on such Distribution Date in accordance with the Priority of Payments set forth herein. Distributions on the Preference Shares will be paid to the extent funds are available in accordance with the Priority of Payments. See "Description of the Notes—Interest," "—Principal" and "—Priority of Payments." The principal of the Notes is payable on each Distribution Date and is required to be paid by their applicable Stated Maturity, unless redeemed or repaid prior thereto. See "Description of the Notes—Principal."

The Notes are subject to redemption under the circumstances described under "Description of the Notes—Mandatory Redemption," "—Auction Call Redemption," "—Optional Redemption", "—Clean-Up Call Redemption" and "—Tax Redemption."

The Notes and Preference Shares offered by the Issuers in the United States will be offered in reliance on an exemption from the registration requirements of the Securities Act and will be represented by one or more global notes (**"Restricted Global Notes"**) in fully registered form without interest coupons attached, deposited with, and registered in the name of, DTC (or its nominee). The Notes offered by the Issuers outside the United States will be offered in reliance upon Regulation S under the Securities Act and initially will be represented by one or more temporary global notes (**"Temporary Regulation S Global Notes"**), that will be exchangeable for one or more permanent global notes (**"Permanent Regulation S Global Notes"** and, together with the Temporary Regulation S Global Notes, the **"Regulation S Global Notes"**) in fully registered form without interest coupons attached, deposited with, and registered in the name of, DTC (or its nominee), initially for the accounts of Euroclear Bank S.A./N.V., as operator of the Euroclear system (**"Euroclear"**), and/or Clearstream Banking, *société anonyme* (**"Clearstream"**). Until and including the 40th day after the later of the commencement of the offering and the Closing Date (one year later with respect to the Preference Shares) (the **"Distribution Compliance Period"**), beneficial interests in a Regulation S Global Note may be held only through Euroclear or Clearstream. Except in the limited circumstances described herein, certificated notes will not be issued in exchange for beneficial interests in a global note. See "Description of the Notes—Form, Denomination, Registration and Transfer." Preference Shares offered in the United States (**"Rule 144A Preference Shares"**) will be issued in definitive, fully registered form registered in the name of the beneficial owner thereof.

NOTWITHSTANDING ANY OTHER EXPRESS OR IMPLIED AGREEMENT TO THE CONTRARY, THE ISSUER, THE COLLATERAL MANAGER AND EACH RECIPIENT HEREOF AGREE THAT EACH OF THEM AND EACH OF THEIR EMPLOYEES, REPRESENTATIVES, AND OTHER AGENTS MAY DISCLOSE, IMMEDIATELY UPON COMMENCEMENT OF DISCUSSIONS, TO ANY AND ALL PERSONS, WITHOUT LIMITATION OF ANY KIND, THE TAX TREATMENT AND TAX STRUCTURE OF THE TRANSACTION AND ALL MATERIALS OF ANY KIND (INCLUDING OPINIONS OR OTHER TAX ANALYSES) THAT ARE PROVIDED TO ANY OF THEM RELATING TO SUCH TAX TREATMENT AND TAX STRUCTURE, EXCEPT WHERE CONFIDENTIALITY IS REASONABLY NECESSARY TO COMPLY WITH U.S. FEDERAL, STATE, OR CAYMAN ISLANDS SECURITIES LAWS. FOR PURPOSES OF THIS PARAGRAPH, THE TERMS "TAX", "TAX TREATMENT", "TAX STRUCTURE", AND "TAX BENEFIT" ARE DEFINED UNDER TREASURY REGULATION § 1.6011-4(c).

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

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NOTICE TO NEW HAMPSHIRE RESIDENTS

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

NOTICE TO PURCHASERS

THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR THE SECURITIES LAWS OF ANY STATE. THE SECURITIES ARE TO BE PURCHASED FOR INVESTMENT ONLY AND MAY NOT BE SOLD, PLEDGED OR OTHERWISE TRANSFERRED BY AN INVESTOR DIRECTLY OR INDIRECTLY WITHIN THE UNITED STATES OR TO OR FOR THE ACCOUNT OF U.S. PERSONS (AS DEFINED IN REGULATION S) EXCEPT PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT THE SELLER OF ANY SECURITIES MAY BE RELYING ON THE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY SECTION 4(2) OF THE SECURITIES ACT, RULE 144A OR ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS UNDER THE SECURITIES ACT. FOR CERTAIN RESTRICTIONS ON RESALE, SEE "DESCRIPTION OF THE NOTES—FORM, DENOMINATION, REGISTRATION AND TRANSFER" AND "TRANSFER RESTRICTIONS" A TRANSFER OF SECURITIES IS SUBJECT TO THE RESTRICTIONS DESCRIBED HEREIN, INCLUDING THAT NO SALE, PLEDGE, TRANSFER OR EXCHANGE MAY BE MADE OF A SECURITIES (1) EXCEPT AS PERMITTED UNDER THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS PURSUANT TO AN EXEMPTION FROM REGISTRATION AS DESCRIBED HEREIN, (2) EXCEPT IN COMPLIANCE WITH THE CERTIFICATION AND OTHER REQUIREMENTS SET FORTH IN THE INDENTURE (OR THE PREFERENCE SHARE PAYING AGENCY AGREEMENT WITH RESPECT TO THE PREFERENCE SHARES) AND (3) IN A DENOMINATION LESS THAN THE REQUIRED MINIMUM DENOMINATION. THE SECURITIES ARE SUBJECT TO FURTHER RESTRICTIONS ON TRANSFER. SEE "TRANSFER RESTRICTIONS."

NEITHER THE ISSUERS NOR THE COLLATERAL HAS BEEN REGISTERED UNDER THE INVESTMENT COMPANY ACT BY REASON OF THE EXEMPTION FROM REGISTRATION CONTAINED IN SECTION 3(c)(7) THEREOF. EACH ORIGINAL PURCHASER OF AN INTEREST IN THE SECURITIES AND EACH SUBSEQUENT TRANSFEREE OF AN INTEREST THEREIN THAT IS A U.S. RESIDENT (WITHIN THE MEANING OF THE INVESTMENT COMPANY ACT) WILL BE DEEMED TO HAVE (OR WITH RESPECT TO THE PREFERENCE SHARES, ACTUALLY HAVE) REPRESENTED AND AGREED THAT IT IS A QUALIFIED PURCHASER AND ALSO WILL BE DEEMED TO HAVE MADE THE REPRESENTATIONS SET FORTH IN "TRANSFER RESTRICTIONS" HEREIN. NO TRANSFER OF SECURITIES THAT WOULD HAVE THE EFFECT OF REQUIRING EITHER OF THE

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ISSUERS TO REGISTER AS AN INVESTMENT COMPANY UNDER THE INVESTMENT COMPANY ACT WILL BE PERMITTED. THE PURCHASER OF ANY SECURITY AGREES THAT SUCH SECURITY IS BEING ACQUIRED FOR ITS OWN ACCOUNT AND NOT WITH A VIEW TO DISTRIBUTION AND MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (A) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER, PURCHASING FOR ITS OWN ACCOUNT, TO WHOM NOTICE IS GIVEN THAT THE RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON THE EXEMPTION FROM SECURITIES ACT REGISTRATION PROVIDED BY RULE 144A OR (B) TO A NON-U.S. PERSON IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 904 OF REGULATION S, IN EACH SUCH CASE IN COMPLIANCE WITH THE INDENTURE AND ALL APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION. ANY TRANSFER OF A RESTRICTED DEFINITIVE NOTE OR A REGULATION S DEFINITIVE NOTE MAY BE EFFECTED ONLY ON THE NOTE REGISTER MAINTAINED BY THE NOTE REGISTRAR PURSUANT TO THE INDENTURE. ANY TRANSFER OF A PREFERENCE SHARE MAY BE EFFECTED ONLY ON THE PREFERENCE SHARE REGISTER MAINTAINED BY THE PREFERENCE SHARE REGISTRAR PURSUANT TO THE PREFERENCE SHARE PAYING AGENCY AGREEMENT. ANY TRANSFER OF AN INTEREST IN A RESTRICTED GLOBAL NOTE OR A REGULATION S GLOBAL NOTE WILL BE SHOWN ON, AND TRANSFERS THEREOF WILL BE EFFECTED ONLY THROUGH, RECORDS MAINTAINED BY DTC AND ITS DIRECT AND INDIRECT PARTICIPANTS (INCLUDING, IN THE CASE OF REGULATION S GLOBAL NOTES, EUROCLEAR AND CLEARSTREAM). ANY TRANSFER OF AN INTEREST IN A REGULATION S GLOBAL PREFERENCE SHARE WILL BE SHOWN ON, AND TRANSFERS THEREOF WILL BE EFFECTED ONLY THROUGH, RECORDS MAINTAINED BY DTC AND ITS DIRECT AND INDIRECT PARTICIPANTS (INCLUDING, IN THE CASE OF REGULATION S GLOBAL NOTES, EUROCLEAR AND CLEARSTREAM).

EACH ORIGINAL PURCHASER AND TRANSFEREE OF A NOTE WILL BE DEEMED TO REPRESENT AND WARRANT THAT EITHER (A) IT IS NOT AN "EMPLOYEE BENEFIT PLAN" AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (**"ERISA"**) THAT IS SUBJECT TO TITLE I OF ERISA, A PLAN DESCRIBED IN SECTION 4975(e)(1) OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE **"CODE"**) THAT IS SUBJECT TO SECTION 4975 OF THE CODE, A GOVERNMENTAL OR CHURCH PLAN WHICH IS SUBJECT TO ANY U.S. FEDERAL, STATE OR LOCAL LAW THAT IS SIMILAR TO THE PROHIBITED TRANSACTION PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE; OR AN ENTITY WHICH IS DEEMED TO HOLD THE ASSETS OF ANY SUCH PLAN PURSUANT TO 29 C.F.R. SECTION 2510.3-101, AS MODIFIED BY SECTION 3(42) OF ERISA, OR OTHERWISE, OR (B) ITS PURCHASE AND OWNERSHIP OF SUCH NOTE WILL NOT RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF A GOVERNMENTAL OR CHURCH PLAN, A NON-EXEMPT VIOLATION OF ANY SUCH SIMILAR U.S. FEDERAL, STATE OR LOCAL LAW).

EACH ORIGINAL PURCHASER AND TRANSFEREE OF A PREFERENCE SHARE WILL REPRESENT AND WARRANT THAT IT IS NOT (I) AN ERISA PLAN; (II) A BENEFIT PLAN INVESTOR; (III) A PERSON ACTING ON BEHALF OF AN ERISA PLAN OR; OR (IV) UNLESS NONE OF ITS ASSETS COULD BE DEEMED TO INCLUDE "PLAN ASSETS" SUBJECT TO TITLE I OF ERISA OR SECTION 4975 OF THE CODE, ANY OTHER BENEFIT PLAN INVESTOR.

THE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION OR

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OTHER REGULATORY AUTHORITY, AND NONE OF THE FOREGOING AUTHORITIES HAS CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

This Offering Circular has been prepared by the Issuers solely for use in connection with the offering described herein of the Notes and the Preference Shares (the **"Offering"**) and for listing purposes. The Issuers accept responsibility for the information contained in this document (except as provided below). To the best knowledge and belief of the Issuers, the information contained in this document (except in respect of the information appearing in the Section (i) "The Collateral Manager" as to which the Collateral Manager accepts sole responsibility, (ii) "Description of the Initial Investment Agreement—The Initial Investment Agreement Provider" as to which the Initial Investment Agreement Provider accepts sole responsibility, (iii) "Deutsche Bank Aktiengesellschaft" as to which the First Synthetic Security Counterparty accepts sole responsibility and (iv) "Plan of Distribution" as to which the Initial Purchaser accept sole responsibility), is in accordance with the facts and does not omit anything likely to affect the import of such information. The Issuers accept responsibility accordingly. The Issuers disclaim any obligation to update such information and do not intend to do so. Neither the Initial Purchaser nor any of their affiliates makes any representation or warranty as to, has independently verified or assumes any responsibility for, the accuracy or completeness of the information contained herein other than the information appearing in the section "Deutsche Bank Aktiengesellschaft", for which it accepts sole responsibility. Neither the Collateral Manager nor any of its affiliates makes any representation or warranty as to, has independently verified or assumes any responsibility for, the accuracy and completeness of the information contained herein other than the information appearing in the section "The Collateral Manager", for which it accepts sole responsibility. Neither the Initial Investment Agreement Provider nor any of its affiliates makes any representation or warranty as to, has independently verified or assumes any responsibility for, the accuracy and completeness of the information contained herein other than the information appearing in the section "Description of the Initial Investment Agreement—The Initial Investment Agreement Provider", for which it accepts sole responsibility. To the best knowledge and belief of the First Synthetic Security Counterparty, the information contained in the section "Deutsche Bank Aktiengesellschaft" is in accordance with the facts and does not omit anything likely to affect the import of such information. To the best knowledge and belief of the Collateral Manager, the information contained in the section "The Collateral Manager" is in accordance with the facts and does not omit anything likely to affect the import of such information. To the best knowledge and belief of the Initial Investment Agreement Provider, the information contained in the section "Description of the Initial Investment Agreement—The Initial Investment Agreement Provider" is in accordance with the facts and does not omit anything likely to affect the import of such information. Nothing contained in this Offering Circular is or should be relied upon as a promise or representation as to future results or events. The Trustee has not participated in the preparation of this Offering Circular and assumes no responsibility for its contents.

All of the statements in this Offering Circular with respect to the business of the Issuers, and any financial projections or other forecasts, are based on information furnished by the Issuers. See "Forward Looking Statements." None of the Initial Purchaser, the Collateral Manager and their respective affiliates assumes any responsibility for the performance of any obligations of either of the Issuers or any other persons described in this Offering Circular (except that the Collateral Manager is responsible for the performance of its obligations under the Management Agreement) or for the due execution, validity or enforceability of the Notes, instruments or documents delivered in connection with the Notes or for the value or validity of any collateral or security interests pledged in connection therewith.

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This Offering Circular contains summaries of certain documents. The summaries do not purport to be complete and are qualified in their entirety by reference to such documents, copies of which will be made available to offerees upon request. Requests and inquiries regarding this Offering Circular or such documents should be directed to DBSI Inc., 60 Wall Street, New York, New York 10005, Attention: Global Markets/CDO Group. Copies of such documents may also be obtained free of charge from the Irish Paying Agent.

The Issuers will make available to any offeree of the Notes, prior to the issuance thereof, the opportunity to ask questions of and to receive answers from the Issuers or a person acting on their behalf concerning the terms and conditions of the Offering, the Issuers or any other relevant matters and to obtain any additional information to the extent the Issuers possess such information or can obtain it without unreasonable expense. The information referred to in this paragraph will also be obtainable at the office of the Irish Paying Agent.

Each Original Purchaser of a Note or Preference Share (or interest therein) offered and sold in the United States will be required (or in certain circumstances deemed) to represent to the Initial Purchaser offering any Note to it that such Original Purchaser (a)(i) is an institutional "accredited investor" within the meaning of Rule 501(a)(1), (2), (3) or (7) (an "**Institutional Accredited Investor**"), or (ii) is a qualified institutional buyer as defined in Rule 144A ("**Qualified Institutional Buyer**") and (b) 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). Each Original Purchaser of the Notes and Preference Shares will also be required to acknowledge or be deemed to acknowledge that the Notes and Preference Shares have not been and will not be registered under the Securities Act and may not be reoffered, resold, pledged or otherwise transferred except (a) (i) to a person whom the seller reasonably believes is both a Qualified Purchaser (as defined below) and 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 registration provided by Rule 144A under the Securities Act or (ii) to a non U.S. Person in an offshore transaction in accordance with Rule 904 of Regulation S, (b) in compliance with the certification (if any) and other requirements specified in the Indenture (or Preference Share Paying Agency Agreement, as applicable) and (c) in accordance with any applicable securities laws of any state of the United States and any other relevant jurisdiction. Each Original Purchaser of a Note that is a U.S. resident (within the meaning of the Investment Company Act) will be required to represent or be deemed to represent that it or the account for which it is purchasing such Notes is a Qualified Purchaser. A "**Qualified Purchaser**" is (i) a "qualified purchaser" within the meaning of the Investment Company Act and the rules thereunder, (ii) a "knowledgeable employee" with respect to the Issuer within the meaning of Rule 3c-5 under the Investment Company Act, or (iii) a company beneficially owned exclusively by one or more "qualified purchasers" and/or "knowledgeable employees" with respect to the Issuer.

The Initial Purchaser currently does not intend to make a market in any Class of Notes or the Preference Shares, and the Initial Purchaser is under no obligation to do so. In the event that the Initial Purchaser commences any market-making, it may discontinue the same at any time. There can be no assurance that a secondary market for any Class of Notes or the Preference Shares will develop, or if a secondary market does develop, that it will provide the holders of such Class of Notes or Preference Shares with liquidity of investment or that it will continue for the life of such Class of Notes or Preference Shares.

THIS OFFERING CIRCULAR IS FOR INFORMATION PURPOSES ONLY AND IS NOT INTENDED TO BE RELIED UPON ALONE AS THE BASIS FOR AN INVESTMENT DECISION. IN MAKING AN INVESTMENT DECISION, PROSPECTIVE INVESTORS MUST RELY ON THEIR OWN EXAMINATION

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OF THE ISSUERS AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED AND MUST NOT RELY UPON INFORMATION PROVIDED BY OR STATEMENTS MADE BY THE INITIAL PURCHASER, THE COLLATERAL MANAGER OR ANY OF THEIR AFFILIATES. INVESTORS SHOULD BE AWARE THAT THEY MAY BE REQUIRED TO BEAR THE FINANCIAL RISKS OF AN INVESTMENT IN THE NOTES FOR AN INDEFINITE PERIOD OF TIME.

NONE OF THE ISSUERS, THE COLLATERAL MANAGER, THE INTEREST RATE SWAP COUNTERPARTY (IF ANY), THE SYNTHETIC SECURITY COUNTERPARTY, THE OFFSETTING TRANSACTION COUNTERPARTY, THE INITIAL INVESTMENT AGREEMENT PROVIDER, THE INITIAL PURCHASER AND ITS AFFILIATES MAKES ANY REPRESENTATION TO ANY OFFEREE OR PURCHASER OF NOTES REGARDING THE LEGALITY OF INVESTMENT THEREIN BY SUCH OFFEREE OR PURCHASER UNDER APPLICABLE LEGAL INVESTMENT OR SIMILAR LAWS OR REGULATIONS OR THE PROPER CLASSIFICATION OF SUCH AN INVESTMENT THEREUNDER. THE CONTENTS OF THIS OFFERING CIRCULAR ARE NOT TO BE CONSTRUED AS LEGAL, BUSINESS OR TAX ADVICE. EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN ATTORNEY, BUSINESS ADVISOR AND TAX ADVISOR AS TO LEGAL, BUSINESS AND TAX ADVICE.

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

THE DISTRIBUTION OF THIS OFFERING CIRCULAR AND THE OFFER OR SALE OF NOTES AND PREFERENCE SHARES MAY BE RESTRICTED BY LAW IN CERTAIN JURISDICTIONS. NONE OF THE ISSUER, THE CO-ISSUER OR THE INITIAL PURCHASER REPRESENTS THAT THIS DOCUMENT MAY BE LAWFULLY DISTRIBUTED, OR THAT ANY NOTES MAY BE LAWFULLY OFFERED, IN COMPLIANCE WITH ANY APPLICABLE REGISTRATION OR OTHER REQUIREMENTS IN ANY SUCH JURISDICTION, OR PURSUANT TO AN EXEMPTION AVAILABLE

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THEREUNDER, OR ASSUME ANY RESPONSIBILITY FOR FACILITATING ANY SUCH DISTRIBUTION OR OFFERING. IN PARTICULAR, NO ACTION HAS BEEN TAKEN BY THE ISSUER, THE CO-ISSUER OR THE INITIAL PURCHASER WHICH WOULD PERMIT A PUBLIC OFFERING OF ANY NOTES OR DISTRIBUTION OF THIS DOCUMENT IN ANY JURISDICTION WHERE ACTION FOR THAT PURPOSE IS REQUIRED. ACCORDINGLY, NO NOTES OR PREFERENCE SHARES MAY BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, AND NEITHER THIS OFFERING CIRCULAR NOR ANY ADVERTISEMENT OR OTHER OFFERING MATERIAL MAY BE DISTRIBUTED OR PUBLISHED IN ANY JURISDICTION, EXCEPT UNDER CIRCUMSTANCES THAT WILL RESULT IN COMPLIANCE WITH ANY APPLICABLE LAWS AND REGULATIONS. PERSONS INTO WHOSE POSSESSION THIS OFFERING CIRCULAR OR ANY NOTES COME MUST INFORM THEMSELVES ABOUT AND OBSERVE ANY SUCH RESTRICTIONS.

NOTWITHSTANDING ANY OTHER EXPRESS OR IMPLIED AGREEMENT TO THE CONTRARY, THE ISSUER, THE INITIAL PURCHASER, THE COLLATERAL MANAGER AND EACH RECIPIENT HEREOF AGREE THAT EACH OF THEM AND EACH OF THEIR EMPLOYEES, REPRESENTATIVES, AND OTHER AGENTS MAY DISCLOSE, IMMEDIATELY UPON COMMENCEMENT OF DISCUSSIONS, TO ANY AND ALL PERSONS, WITHOUT LIMITATION OF ANY KIND, THE TAX TREATMENT AND TAX STRUCTURE OF THE TRANSACTION AND ALL MATERIALS OF ANY KIND (INCLUDING OPINIONS OR OTHER TAX ANALYSES) THAT ARE PROVIDED TO ANY OF THEM RELATING TO SUCH TAX TREATMENT AND TAX STRUCTURE, EXCEPT WHERE CONFIDENTIALITY IS REASONABLY NECESSARY TO COMPLY WITH U.S. FEDERAL, STATE, OR CAYMAN ISLANDS SECURITIES LAWS.

THIS DOCUMENT IS CONSIDERED AN ADVERTISEMENT FOR PURPOSES OF APPLICABLE MEASURES IMPLEMENTING E.U. DIRECTIVE 2003/71/EC. A PROSPECTUS PREPARED PURSUANT TO THE PROSPECTUS DIRECTIVE WILL BE PUBLISHED, WHICH CAN BE OBTAINED FROM THE ISSUER AND THE IRISH PAYING AGENT. SEE "LISTING AND GENERAL INFORMATION".

NOTICE TO FLORIDA RESIDENTS

THE NOTES AND PREFERENCE SHARES 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 NOTES AND PREFERENCE SHARES WITHOUT PENALTY WITHIN THREE DAYS AFTER THE FIRST TENDER OF CONSIDERATION.

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NOTICE TO CONNECTICUT RESIDENTS

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

NOTICE TO GEORGIA RESIDENTS

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

NOTICE TO RESIDENTS OF AUSTRALIA

NO PROSPECTUS, DISCLOSURE DOCUMENT, OFFERING MATERIAL OR ADVERTISEMENT IN RELATION TO THE NOTES AND PREFERENCE SHARES HAS BEEN LODGED WITH THE AUSTRALIAN SECURITIES AND INVESTMENTS COMMISSION OR THE AUSTRALIAN STOCK EXCHANGE LIMITED. ACCORDINGLY, A PERSON MAY NOT (A) MAKE, OFFER OR INVITE APPLICATIONS FOR THE ISSUE, SALE OR PURCHASE OF THE NOTES AND PREFERENCE SHARES WITHIN, TO OR FROM AUSTRALIA (INCLUDING AN OFFER OR INVITATION WHICH IS RECEIVED BY A PERSON IN AUSTRALIA) OR (B) DISTRIBUTE OR PUBLISH THIS OFFERING CIRCULAR OR ANY OTHER PROSPECTUS, DISCLOSURE DOCUMENT, OFFERING MATERIAL OR ADVERTISEMENT RELATING TO THE SECURITIES IN AUSTRALIA, UNLESS (I) THE MINIMUM AGGREGATE CONSIDERATION PAYABLE BY EACH OFFEREE IS THE U.S. DOLLAR EQUIVALENT OF AT LEAST A$500,000 (DISREGARDING MONEYS LENT BY THE OFFEROR OR ITS ASSOCIATES) OR THE OFFER OTHERWISE DOES NOT REQUIRE DISCLOSURE TO INVESTORS IN ACCORDANCE WITH PART 6D.2 OF THE CORPORATIONS ACT 2001 (CWLTH) OF AUSTRALIA, AND (II) SUCH ACTION COMPLIES WITH ALL APPLICABLE LAWS AND REGULATIONS.

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NOTICE TO RESIDENTS OF AUSTRIA

THIS OFFERING CIRCULAR IS NOT A PROSPECTUS UNDER THE AUSTRIAN CAPITAL MARKETS ACT OR THE AUSTRIAN INVESTMENT FUNDS ACT. THIS OFFERING CIRCULAR HAS NOT BEEN EXAMINED BY A PROSPECTUS AUDITOR AND NO PROSPECTUS ON THE PRIVATE PLACEMENT OF THE NOTES AND PREFERENCE SHARES HAS BEEN PUBLISHED OR WILL BE PUBLISHED IN AUSTRIA. THE NOTES AND PREFERENCE SHARES ARE OFFERED IN AUSTRIA ONLY TO A RESTRICTED AND SELECTED NUMBER OF PROFESSIONAL AND SOPHISTICATED INDIVIDUAL INVESTORS, AND NO PUBLIC OFFERING OF THE NOTES AND PREFERENCE SHARES IN AUSTRIA IS BEING MADE OR IS INTENDED TO BE MADE. THE NOTES AND PREFERENCE SHARES CAN ONLY BE ACQUIRED FOR A COMMITMENT EXCEEDING ATS600,000 OR ITS EQUIVALENT VALUE IN ANY FOREIGN CURRENCY. THE INTERESTS ISSUED BY THE ISSUERS ARE NOT OFFERED IN AUSTRIA, AND THE ISSUERS ARE NOT AND WILL NOT BE REGISTERED AS A FOREIGN INVESTMENT FUND IN AUSTRIA.

NOTICE TO RESIDENTS OF BAHRAIN

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

NOTICE TO RESIDENTS OF BELGIUM

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

NOTICE TO RESIDENTS OF THE CAYMAN ISLANDS

NO INVITATION TO SUBSCRIBE FOR ANY NOTES AND PREFERENCE SHARES MAY BE MADE TO THE PUBLIC IN THE CAYMAN ISLANDS.

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NOTICE TO RESIDENTS OF DENMARK

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

NOTICE TO RESIDENTS OF FINLAND

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

NOTICE TO RESIDENTS OF FRANCE

THIS OFFERING CIRCULAR IS FURNISHED TO YOU SOLELY FOR YOUR INFORMATION AND MAY NOT BE REPRODUCED OR REDISTRIBUTED TO ANY OTHER PERSON. IT IS STRICTLY CONFIDENTIAL AND IS SOLELY DESTINED FOR PERSONS OR INSTITUTIONS TO WHICH IT WAS INITIALLY SUPPLIED. THIS OFFERING CIRCULAR DOES NOT CONSTITUTE AN OFFER OR AN INVITATION TO SUBSCRIBE FOR OR TO PURCHASE ANY OFFERED SECURITIES AND NEITHER THIS DOCUMENT NOR ANYTHING CONTAINED HEREIN SHALL FORM THE BASIS OF ANY CONTRACT OR COMMITMENT WHATSOEVER.

AS LONG AS THE PROSPECTUS DIRECTIVE IS NOT IMPLEMENTED IN FRANCE, THE FOLLOWING FRENCH SELLING RESTRICTIONS WILL APPLY: EACH OF THE INITIAL PURCHASER HAS REPRESENTED AND AGREED, AND EACH FUTURE DEALER WILL BE REQUIRED TO REPRESENT AND AGREE ,THAT IN CONNECTION WITH THEIR INITIAL DISTRIBUTION IT HAS NOT OFFERED OR SOLD OR CAUSED TO BE OFFERED OR SOLD AND WILL NOT OFFER OR SELL OR CAUSED TO BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, ANY OFFERED SECURITIES BY WAY OF A PUBLIC OFFERING IN THE REPUBLIC OF FRANCE (AN APPEL PUBLIC À L'ÉPARGNE AS DEFINED IN ARTICLE L.411-1 OF THE FRENCH CODE MONÉTAIRE ET FINANCIER (THE "FRENCH CODE")) AND THAT OFFERS AND SALES OF THE OFFERED SECURITIES WILL BE MADE IN THE REPUBLIC OF FRANCE IN ACCORDANCE WITH THE ARTICLE L.411-1 AND FOLLOWING OF THE FRENCH CODE AND DECREE NO.98.880 DATED 1ST OCTOBER, 1998 RELATING TO OFFERS TO QUALIFIED INVESTORS.

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NOTICE TO RESIDENTS OF GERMANY

THE NOTES AND PREFERENCE SHARES MAY ONLY BE ACQUIRED IN ACCORDANCE WITH THE GERMAN WERTPAPIERPROSPEKTGESETZ (**"SECURITIES PROSPECTUS ACT"**) AND THE INVESTMENTGESETZ (**"INVESTMENT ACT"**). THE SECURITIES ARE NOT REGISTERED OR AUTHORIZED FOR DISTRIBUTION UNDER THE INVESTMENT ACT AND MAY NOT BE, AND ARE NOT BEING OFFERED OR ADVERTISED PUBLICLY OR OFFERED SIMILARLY UNDER THE INVESTMENT ACT OR THE SECURITIES PROSPECTUS ACT. THEREFORE, THIS OFFER IS ONLY BEING MADE TO RECIPIENTS TO WHOM THIS DOCUMENT IS PERSONALLY ADDRESSED AND DOES NOT CONSTITUTE AN OFFER OR ADVERTISEMENT TO THE PUBLIC. THE SECURITIES CAN ONLY BE ACQUIRED FOR A MINIMUM PURCHASE PRICE OF AT LEAST € 50,000 (EXCLUDING COMMISSIONS AND OTHER FEES) PER PERSON. ALL PROSPECTIVE INVESTORS ARE URGED TO SEEK INDEPENDENT TAX ADVICE. NONE OF THE ISSUER, THE TRUSTEE, THE COLLATERAL MANAGER, THE INITIAL PURCHASER OR ANY OF THEIR RESPECTIVE AFFILIATES GIVES ANY TAX ADVICE.

NOTICE TO RESIDENTS OF HONG KONG

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

NOTICE TO RESIDENTS OF ITALY

THIS OFFERING CIRCULAR MAY NOT BE DISTRIBUTED TO MEMBERS OF THE PUBLIC IN ITALY. THE ITALIAN COMMISSIONE NAZIONALE PER LA SOCIETA E LA BORSA HAS NOT AUTHORIZED ANY OFFERING OF THE SUBSCRIPTION OF THE NOTES OR PREFERENCE SHARES. ACCORDINGLY, THE NOTES AND PREFERENCE SHARES MAY NOT BE OFFERED OR SOLD IN ITALY OR TO RESIDENTS THEREOF EXCEPT AS PERMITTED BY ITALIAN LAW.

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NOTICE TO RESIDENTS OF JAPAN

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

NOTICE TO RESIDENTS OF KOREA

NONE OF THE ISSUER, THE CO-ISSUER AND THE INITIAL PURCHASER IS MAKING ANY REPRESENTATION, EXPRESS OR IMPLIED, WITH RESPECT TO THE QUALIFICATION OF THE RECIPIENTS OF THIS OFFERING CIRCULAR FOR THE PURPOSE OF INVESTING IN THE NOTES OR PREFERENCE SHARES UNDER THE LAWS OF KOREA, INCLUDING AND WITHOUT LIMITATION THE FOREIGN EXCHANGE MANAGEMENT LAW AND REGULATIONS THEREUNDER. THE NOTES AND PREFERENCE SHARES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES AND EXCHANGE LAW OF KOREA AND NONE OF THE NOTES OR PREFERENCE SHARES MAY BE OFFERED OR SOLD OR DELIVERED, DIRECTLY OR INDIRECTLY, IN KOREA OR TO ANY RESIDENT OF KOREA EXCEPT PURSUANT TO APPLICABLE LAWS AND REGULATIONS OF KOREA.

NOTICE TO RESIDENTS OF THE NETHERLANDS

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

NOTICE TO RESIDENTS OF NORWAY

EACH OF THE ISSUERS AND THE INITIAL PURCHASER REPRESENTS AND AGREES THAT IT WILL COMPLY WITH CHAPTER 5 OF THE NORWEGIAN ACT NO. 79 OF JUNE 19, 1997 ON SECURITIES TRADING (SECURITIES TRADING ACT) AND EACH OF THE ISSUERS AND THE INITIAL PURCHASER ADDITIONALLY REPRESENT AND AGREE THAT THEY HAVE NOT, DIRECTLY OR INDIRECTLY, OFFERED OR SOLD AND WILL NOT, DIRECTLY OR INDIRECTLY, OFFER OR SELL IN THE KINGDOM OF NORWAY OR TO INVESTORS IN THE NORWEGIAN SECURITIES

MARKET ANY NOTES OR PREFERENCE SHARES OTHER THAN TO PERSONS WHO ARE REGISTERED WITH THE OSLO STOCK EXCHANGE AS PROFESSIONAL INVESTORS.

NOTICE TO RESIDENTS OF SINGAPORE

THIS OFFERING CIRCULAR WILL, PRIOR TO ANY SALE OF SECURITIES PURSUANT TO THE PROVISIONS OF SECTION 106D OF THE COMPANIES ACT (CAP. 50), BE LODGED, PURSUANT TO SAID SECTION 106D, WITH THE REGISTRAR OF COMPANIES IN SINGAPORE, WHICH TAKES NO RESPONSIBILITY FOR ITS CONTENTS, BUT HAS NOT BEEN AND WILL NOT BE REGISTERED AS A PROSPECTUS WITH THE REGISTRAR OF COMPANIES IN SINGAPORE. ACCORDINGLY, THE NOTES AND PREFERENCE SHARES MAY NOT BE OFFERED NOR MAY THIS OFFERING CIRCULAR NOR ANY OTHER OFFERING DOCUMENT OR MATERIAL RELATING TO THE NOTES OR PREFERENCE SHARES BE CIRCULATED OR DISTRIBUTED, DIRECTLY OR INDIRECTLY, TO THE PUBLIC OR ANY MEMBER OF THE PUBLIC IN SINGAPORE OTHER THAN TO INSTITUTIONAL INVESTORS OR OTHER PERSONS OF THE KIND SPECIFIED IN SECTION 106C AND SECTION 106D OF THE COMPANIES ACT OR ANY OTHER APPLICABLE EXEMPTION INVOKED UNDER DIVISION 5A OF PART IV OF THE COMPANIES ACT. THE FIRST SALE OF SECURITIES ACQUIRED UNDER A SECTION 106C OR SECTION 106D EXEMPTION IS SUBJECT TO THE PROVISIONS OF SECTION 106E OF THE COMPANIES ACT.

NOTICE TO RESIDENTS OF SPAIN

THIS OFFERING CIRCULAR HAS NOT BEEN AND WILL NOT BE REGISTERED WITH THE COMISION NACIONAL DEL MERCADO DE VALORES OF SPAIN AND MAY NOT BE DISTRIBUTED IN SPAIN IN CONNECTION WITH THE OFFERING AND SALE OF THE NOTES OR PREFERENCE SHARES WITHOUT COMPLYING WITH ALL LEGAL AND REGULATORY REQUIREMENTS IN RELATION THERETO.

NOTICE TO RESIDENTS OF SWEDEN

THIS OFFERING CIRCULAR IS FOR THE RECIPIENT ONLY AND MAY NOT IN ANY WAY BE FORWARDED TO ANY OTHER PERSON OR TO THE PUBLIC IN SWEDEN. THE OFFERING OF THE NOTES AND PREFERENCE SHARES IS INTENDED TO BE A PRIVATE PLACEMENT, AND A MINIMUM INVESTMENT OF SEK 300,000 IN THE NOTES OR PREFERENCE SHARES IS REQUIRED.

NOTICE TO RESIDENTS OF SWITZERLAND

THE ISSUER HAS NOT BEEN AUTHORIZED BY THE SWISS FEDERAL BANKING COMMISSION AS A FOREIGN INVESTMENT FUND UNDER ARTICLE 45 OF THE SWISS FEDERAL LAW ON INVESTMENT FUNDS OF 18 MARCH 1994. ACCORDINGLY, THE NOTES AND PREFERENCE SHARES MAY NOT BE OFFERED OR DISTRIBUTED ON A PROFESSIONAL BASIS IN OR FROM SWITZERLAND, AND NEITHER THIS OFFERING CIRCULAR NOR ANY OTHER OFFERING MATERIALS RELATING TO THE NOTES OR PREFERENCE SHARES MAY BE DISTRIBUTED IN

CONNECTION WITH ANY SUCH OFFERING OR DISTRIBUTION. THE NOTES AND PREFERENCE SHARES MAY, HOWEVER, BE OFFERED AND THIS OFFERING CIRCULAR MAY BE DISTRIBUTED IN SWITZERLAND ON A PROFESSIONAL BASIS TO A LIMITED NUMBER OF PROFESSIONAL INVESTORS IN CIRCUMSTANCES SUCH THAT THERE IS NO PUBLIC OFFER.

NOTICE TO RESIDENTS OF TAIWAN AND CHINA

THE OFFER OF THE NOTES AND PREFERENCE SHARES HAS NOT BEEN AND WILL NOT BE REGISTERED WITH THE SECURITIES AND FUTURES COMMISSION OF TAIWAN OR WITH THE RELEVANT REGULATORY AUTHORITIES IN THE REPUBLIC OF CHINA PURSUANT TO RELEVANT SECURITIES LAWS AND REGULATIONS AND MAY NOT BE OFFERED OR SOLD WITHIN TAIWAN OR THE REPUBLIC OF CHINA THROUGH A PUBLIC OFFERING OR IN CIRCUMSTANCES WHICH CONSTITUTE AN OFFER WITHIN THE MEANING OF THE SECURITIES AND EXCHANGE LAW OF TAIWAN OR WITHIN THE MEANING OF RELEVANT SECURITIES LAWS AND REGULATIONS IN THE REPUBLIC OF CHINA THAT REQUIRE A REGISTRATION OR APPROVAL OF THE SECURITIES AND FUTURES COMMISSION OF TAIWAN OR THE RELEVANT SECURITIES REGULATORY AUTHORITIES IN CHINA.

NOTICE TO RESIDENTS OF THE UNITED KINGDOM

THIS DOCUMENT IS ONLY BEING DISTRIBUTED TO AND IS ONLY DIRECTED AT (I) PERSONS WHO ARE OUTSIDE THE UNITED KINGDOM OR (II) TO INVESTMENT PROFESSIONALS FALLING WITHIN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT OF 2000 (**"FSMA"**) (FINANCIAL PROMOTION) ORDER 2005 (THE **"ORDER"**) OR (III) HIGH NET WORTH ENTITIES, AND OTHER PERSONS TO WHOM IT MAY LAWFULLY BE COMMUNICATED, FALLING WITHIN ARTICLE 49(2) (A) TO (D) OF THE ORDER (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS **"RELEVANT PERSONS"**). THE SECURITIES ARE AVAILABLE ONLY TO, AND ANY INVITATION, OFFER OR AGREEMENT TO SUBSCRIBE, PURCHASE OR OTHERWISE ACQUIRE SUCH SECURITIES WILL BE ENGAGED IN ONLY WITH, RELEVANT PERSONS. ANY PERSON WHO IS NOT A RELEVANT PERSON SHOULD NOT ACT OR RELY ON THIS DOCUMENT OR ANY OF ITS CONTENTS.

AVAILABLE INFORMATION

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

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FORWARD LOOKING STATEMENTS

Any projections, forecasts and estimates contained herein are forward looking statements and are based upon certain assumptions that the Collateral Manager considers 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 actual allocation of the Underlying Assets among asset categories, the timing and frequency of defaults, writedowns, principal shortfalls and interest shortfalls on the Underlying Assets, mismatches between the timing of accrual and receipt of Interest Proceeds and Principal Proceeds from the Underlying Assets (particularly prior to the investment of all Uninvested Proceeds), defaults under Underlying Assets and the effectiveness of any Interest Rate Swap 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 Purchaser or its 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 Purchaser or its affiliates has any obligation to update or otherwise revise any projections, including any revisions to reflect changes in economic conditions or other circumstances arising after the date hereof or to reflect the occurrence of unanticipated events, even if the underlying assumptions do not come to fruition.

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SCHEDULE A	—	Auction Call Redemption – Auction Procedures
SCHEDULE B	—	Standard & Poor's Rating
SCHEDULE C	—	Moody's Rating and Moody's Weighted Average Rating
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SUMMARY OF TERMS

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

Securities Offered	U.S.$244,000,000 aggregate principal amount Class A-1a Floating Rate Notes Due December 2045 (the **"Class A-1a Notes"**).
	U.S.$400,000,000 aggregate principal amount Class A-1b Floating Rate Notes Due December 2045 (the **"Class A-1bNotes"** and, together with the Class A-1a Notes, the **"Class A-1 Notes"**).
	U.S.$159,000,000 aggregate principal amount Class A-2 Floating Rate Notes Due December 2045 (the **"Class A-2 Notes"**) and, together with the Class A-1 Notes, the **"Class A Notes"**).
	U.S.$96,900,000 aggregate principal amount Class B Floating Rate Notes Due December 2045 (the **"Class B Notes"**).
	U.S.$68,300,000 aggregate principal amount Class C Floating Rate Deferrable Interest Notes Due December 2045 (the **"Class C Notes"**).
	U.S.$55,100,000 aggregate principal amount Class D Floating Rate Deferrable Interest Notes Due December 2045 (the **"Class D Notes"**).
	U.S.$18,700,000 aggregate principal amount Class E Floating Rate Deferrable Interest Notes Due December 2045 (the **"Class E Notes**, together with the Class A Notes, Class B Notes, Class C Notes and Class D Notes, the **"Notes"**).
Preference Shares	Concurrently with the issuance of the Notes, the Issuer will issue 59,500 Preference Shares, par value U.S.$0.01 per share, issued at a liquidation preference of U.S.$1,000 per share (the **"Preference Shares"**). It is expected that the Collateral Manager will purchase all of the Preference Shares and the Collateral Manager may purchase some or all of the Class E Notes.
Status of the Notes	Each of the Class A-1a Notes, Class A-1b Notes, Class A-2 Notes, Class B Notes, Class C Notes, Class D Notes and Class E Notes are herein referred to as a **"Class"** of Notes. The entire principal amount of each Class of Notes and all of the Preference Shares will be issued on the Closing Date.
	The Notes will be issued and secured pursuant to the

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Indenture. The Synthetic Security 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 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 Trustee, the Synthetic Security Counterparty, the Offsetting Transaction Counterparty and any Interest Rate Swap Counterparty (collectively, the **"Secured Parties"**). See "Description of the Notes—Status and Security."

The relative order of seniority of payment of each Class of Notes is as follows: *first*, Class A-1a Notes, *second*, Class A-1b Notes, *third*, Class A-2 Notes, *fourth*, Class B Notes, *fifth*, Class C Notes, *sixth*, Class D Notes and *seventh*, Class E Notes, with (a) each Class of Notes in such list being **"Senior"** to each other Class of Notes that follows such Class of Notes in such list and (b) each Class of Notes (other than the Class A-1a Notes) in such list being **"Subordinate"** to the Class of Notes that precedes such Class of Notes in such list. The Notes are Senior to the Preference Shares.

No payment of interest on any Class of Notes will be made until all accrued interest due and payable on the Notes of each Class that is Senior to such Class and that remains outstanding has been paid in full. No payment of principal of any Class of Notes will be made until all principal of, and 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, except as described under "—Principal Repayment of the Notes". See also "Description of the Notes—Priority of Payments."

However:

(a) on any Distribution Date occurring on or before the Distribution Date in March 2010 (with the period from the Closing Date to such Distribution Date referred to herein as the **"Priority Distribution Period"**), Interest Proceeds will be applied, in an amount available for such purpose, if any, on the relevant Distribution Date, to pay principal of the Class D Notes in an amount up to the Class D Priority Redemption Amount for such Distribution Date as set forth in **Schedule F** (the **"Class D Priority Redemption Amount"**) to this Offering Circular until 10.00% of the aggregate principal amount of the Class D Notes as of the Closing Date is redeemed; and on any Distribution Date occurring after

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		the March 2010 Distribution Date, 15.00% of the Interest Proceeds that would otherwise be paid to the Preference Share Paying Agent for distribution to the holders of the Preference Shares will be applied to pay principal of the Class D Notes until the Class D Notes are paid in full;
	(b)	on any Distribution Date occurring on or after the Distribution Date in June 2015 (if no Optional Redemption, Auction Call Redemption, Clean-Up Call Redemption or Tax Redemption has been successfully completed before such Distribution Date) (the **"Accelerated Amortization Date"**), Interest Proceeds that would otherwise be paid to the Preference Share Paying Agent for distribution to the holders of the Preference Shares will be applied to pay, *first*, the principal of the Class E Notes, *second*, the principal of the Class D Notes, *third*, the principal of the Class C Notes, *fourth*, the principal of the Class B Notes, *fifth*, the principal of the Class A-2 Notes, *sixth*, the principal of the Class A-1b Notes and *seventh*, the principal of the Class A-1a Notes, in each case until such Class has been paid in full; and
	(c)	if the Class E Diversion Test is not satisfied on a Determination Date, Interest Proceeds will be applied on the immediately succeeding Distribution Date to pay principal of the Class E Notes in sufficient amounts to satisfy the Class E Diversion Test.
		See "Description of the Notes—Priority of Payments."
The Issuers		Gemstone CDO VII Ltd. (the **"Issuer"**) is an exempted company with limited liability incorporated under the Companies Law (2004 Revision) of the Cayman Islands pursuant to its Memorandum and Articles of Association (the **"Issuer Charter"**) and is in good standing under the laws of the Cayman Islands. The Indenture and Issuer Charter will provide that the activities of the Issuer are limited to:
	(a)	acquiring, holding, pledging and selling Underlying Assets, Offsetting Transactions and Eligible Investments;
	(b)	entering into and performing its obligations under the Indenture, any Interest Rate Swap Agreement, any Investment Agreement, the Management Agreement, the Collateral Administration Agreement, the Note Purchase Agreement, the subscription agreement with respect to the private placement of the Preference Shares (the **"Subscription Agreement"**) and the

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	Preference Share Paying Agency Agreement; (c) issuing, redeeming and selling the Notes and the Preference Shares, and issuing the Ordinary Shares; (d) pledging the Collateral as security for its obligations in respect of the Notes and otherwise for the benefit of the Secured Parties; (e) owning the Co-Issuer; and (f) other activities incidental to the foregoing. The Issuer will not have any material assets other than the Underlying Assets, Eligible Investments, any Interest Rate Swap Agreement and rights under certain other agreements entered into as described herein. Gemstone CDO VII Corp., a Delaware corporation (the **"Co-Issuer"** and, together with the Issuer, the **"Issuers"**), was incorporated for the sole purpose of co-issuing the Notes. The entire authorized share capital of the Co-Issuer is owned by the Issuer. The Co-Issuer will not have any assets (other than the proceeds of its common shares, being U.S.$250) and will not pledge any assets to secure any Class of Notes. The Co-Issuer will not have any interest in the Underlying Assets held by the Issuer.
Collateral Manager	HBK Investments L.P., a Delaware limited partnership (together with its affiliated subadvisors, the **"Collateral Manager"**) with headquarters in Dallas, Texas, will manage the Collateral under a Management Agreement to be entered into between the Issuer and the Collateral Manager (the **"Management Agreement"**). Collateral management services for the Issuer will be performed by various affiliated subadvisors of HBK Investments L.P., which are under common control with HBK Investments L.P. Pursuant to the Management Agreement and in accordance with the Indenture, the Collateral Manager has selected and will manage the Collateral and will exercise rights and remedies associated with the Underlying Assets based on the restrictions set forth in the Indenture and on the Collateral Manager's research, credit analysis and judgment. The Collateral Manager will also monitor any Interest Rate Swap Agreement and may also act as the Auction Agent in connection with an Auction Call Redemption. Also, the Collateral Manager may direct the Disposition of the Underlying Assets in the case of an Optional Redemption, a Clean-up Call or a Tax Redemption. For a summary of the provisions of the Management Agreement and certain other information

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	concerning the Collateral Manager and key individuals associated therewith who will be managing the Issuer's portfolio, see "The Collateral Manager" and "The Management Agreement."
Use of Proceeds	The gross proceeds received from the issuance and sale of the Notes and the Preference Shares will be at least U.S.$1,070,000,000. On the Closing Date, the Issuer will receive at least U.S.$1,060,000,000 as the net proceeds from the issuance and sale of the Notes and the Preference Shares. The net proceeds from the issuance and sale of the Notes and the Preference Shares are the gross proceeds net of the payment of the placement and structuring fees related to the placement of the Notes and Preference Shares, the payment of other closing expenses and an initial deposit into the Expense Account. The net proceeds from the issuance and the sale of the Notes and the Preference Shares will be used by the Issuer to purchase on the Closing Date a diversified portfolio of interests in asset-backed securities (**"Asset-Backed Securities"**) and Synthetic Securities (together with the Asset-Backed Securities, the **"Underlying Assets"**) having the characteristics described herein. Following the Closing Date, the Issuer may also enter into Offsetting Transactions (including the payment of any initial amounts upon the entry into an Offsetting Transaction) and to fund certain accounts established under the Indenture. See "Security for the Notes—Underlying Assets." For the avoidance of doubt, the Underlying Assets and Synthetic Securities shall not include any Offset Transaction or Offsetting Transaction. On the Closing Date, the Issuer will have acquired (or committed to acquire for settlement in accordance with customary settlement procedures in the relevant markets) the entire portfolio. As of the Closing Date, the portfolio will consist of Underlying Assets (acquired or committed to be acquired) having an aggregate Principal/Notional Balance (including principal collections on such Underlying Assets deposited in the Uninvested Proceeds Account on the Closing Date) of at least U.S.$1,100,000,000. In the event that there are any remaining uninvested net proceeds on the Determination Date preceding the September 2007 Distribution Date, they will be applied in the manner described herein under "Description of the Notes—Certain Definitions—Principal Proceeds," "Description of the Notes—Priority of Payments—Principal Proceeds" and "Security for the Notes—The Accounts—Uninvested Proceeds Account."
Security for the Notes	Pursuant to the Indenture, the Notes, together with the Issuer's obligations to the Interest Rate Swap Counterparty under any Interest Rate Swap Agreement, the Synthetic Security Counterparty under the Synthetic Securities, the Initial Investment Agreement Provider under the Initial Investment

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	Agreement, the Trustee under the Indenture and the Collateral Manager under the Management Agreement, will be secured by: (a) the Underlying Assets and Equity Securities and the Offset Transactions and the Offsetting Transactions; (b) the rights of the Issuer under any Interest Rate Swap Agreement; (c) amounts on deposit in the Payment Account, the Interest Collection Account, the Principal Collection Account, the Expense Account, the Uninvested Proceeds Account, the Synthetic Security Issuer Account, the Disposition Proceeds Account, the Synthetic Security Collateral Account and the Interest Rate Swap Counterparty Collateral Account (collectively, the **"Accounts"**) and Eligible Investments purchased with funds on deposit in such accounts; (d) the rights of the Issuer under the Management Agreement, the Note Purchase Agreement, the Subscription Agreement and the Administration Agreement; and (e) 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. The Collateral will not include the Excepted Property.
Acquisition of the Underlying Assets	On the Closing Date, the Issuer will have acquired (or committed to acquire for settlement in accordance with customary settlement procedures in the relevant markets) the entire portfolio, which will consist of Underlying Assets having an Aggregate Principal/Notional Balance (including principal collections on Asset-Backed Securities deposited in the Uninvested Proceeds Account on the Closing Date) of at least U.S.$1,100,000,000 and will be pledged to the Trustee under the Indenture. The Underlying Assets so acquired by the Issuer will, on the Closing Date, have the characteristics described herein under "Security for the Notes— Underlying Assets". After the Closing Date, following the Disposition of Underlying Assets in accordance with and subject to the conditions herein, the Issuer, at the direction of the Collateral Manager, may apply

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	the Disposition Proceeds in respect of such Dispositions to purchase additional Asset-Backed Securities or to enter into additional Synthetic Securities. During the Reinvestment Period, the Issuer, at the direction of the Collateral Manager and subject to the limitations described in "Disposition of the Underlying Assets," may trade Underlying Assets on a discretionary basis. After the Reinvestment Period, the Issuer will not be able to acquire Underlying Assets on a discretionary basis. Both during and after the Reinvestment Period, the Collateral Manager may, on behalf of the Issuer, Dispose of Defaulted Assets, Equity Securities, Credit-Risk Assets, Credit-Improved Assets and Withholding Securities as described under "Disposition of the Underlying Assets" and may reinvest the Disposition Proceeds of such Dispositions in additional Underlying Assets. During and after the Reinvestment Period, the Issuer, at the direction of the Collateral Manager, may also enter into Offsetting Transactions; *provided that* the proceeds resulting from an Offsetting Transaction will be constrained by the same conditions applicable to Disposition Proceeds received in respect of Dispositions of Underlying Assets.
Disposition of the Underlying Assets	At any time, the Collateral Manager may, on behalf of the Issuer, Dispose of any Defaulted Assets, Equity Securities or Underlying Assets subject to withholding or other similar taxes and acquire additional Underlying Assets; *provided* that such Dispositions and acquisitions are subject to the restrictions described in "Security for the Notes—Disposition of Underlying Assets." The Collateral Manager may also Dispose, on behalf of the Issuer, of Credit-Risk Assets, Credit-Improved Assets or other Underlying Assets and acquire additional Underlying Assets, subject to the conditions indicated below. *Credit-Risk Assets.* The Collateral Manager, on behalf of the Issuer, may Dispose of any Underlying Asset that the Collateral Manager, acting on behalf of the Issuer, determines to be (and which the Collateral Manager certifies in writing to the Trustee that it has determined to be) a Credit-Risk Asset and, if applicable, to acquire additional Underlying Assets in accordance with clause (B) below. The Collateral Manager may not direct the Trustee to Dispose of any Underlying Asset that it determines to be a Credit-Risk Asset unless, in connection with the Disposition of such Credit-Risk Asset, the Collateral Manager will certify in writing to the Trustee that: (A) at the direction of the Collateral Manager, the Disposition Proceeds arising from the Disposition of such Credit-Risk Asset shall be transferred to the Principal Collection

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Account to be applied in accordance with the Priority of Payments; provided that such Disposition Proceeds may not be reinvested, or

(B) the Collateral Manager believes that the Issuer will be able to reinvest the Disposition Proceeds arising from the Disposition of such Credit-Risk Asset, within 90 days after such Credit-Risk Asset is Disposed of, in one or more additional Asset-Backed Securities or Synthetic Securities having an Aggregate Principal/Notional Balance that, together with accrued interest thereon, is at least equal to the Disposition Proceeds arising from the Disposition of such Credit-Risk Asset being Disposed of and the Collateral Manager believes that after giving effect to such Disposition and the subsequent acquisition, the level of each of the Collateral Quality Tests and Eligibility Criteria, if failing, will be maintained or improved as compared to the test levels prior to such Disposition and subsequent acquisition;

provided however that after the Reinvestment Period, the Issuer may not Dispose of a Credit-Risk Asset and acquire one or more additional Underlying Assets pursuant to this paragraph unless, *additionally*,

(i) the Collateral Quality Tests are in compliance,

(ii) the Underlying Asset proposed to be acquired shall have a Moody's Rating and a Standard & Poor's Rating at least equal to the Moody's Rating and the Standard & Poor's Rating respectively of the Credit-Risk Asset to be Disposed,

(iii) the weighted average life of the Underlying Asset(s) proposed to be acquired following such Disposition shall be less than or equal to the weighted average life of the Credit-Risk Asset proposed to be Disposed; provided however, the Issuer may Dispose of a Credit-Risk Asset with a weighted average life less than the weighted average life of the Underlying Asset(s) proposed to be acquired following such Disposition if (A) the weighted average life of the Underlying Asset(s) proposed to be acquired following such Disposition shall be no more than two years greater than the weighted average life of the Credit-Risk Asset to be Disposed, (B) the Aggregate Principal/Notional Balance of all Credit-Risk Assets Disposed pursuant to this proviso does not exceed 25% of the Aggregate Principal Notional Balance of all Underlying Assets as of the Closing Date and (C) the date of such Disposition is no later than the date that is three years after the end of the Reinvestment Period and

(iv)(A) all Coverage Tests are satisfied prior to such Disposition, (B) the Collateral Manager believes that, after

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giving effect to such Disposition and the subsequent acquisition described in this paragraph all Coverage Tests will be satisfied and the level of each Coverage Test will be at least equal to its level prior to such Disposition and (C) the level of the Class D Overcollateralization Test is at least equal to 107.62%.

Credit-Improved Assets. The Collateral Manager, on behalf of the Issuer, may Dispose of any Underlying Asset that the Collateral Manager, acting on behalf of the Issuer, determines to be (and which the Collateral Manager certifies in writing to the Trustee that it has determined to be) a Credit Improved Asset and, if applicable, to acquire additional Underlying Assets in accordance with clause (B) below. The Collateral Manager may not direct the Trustee to Dispose of any Underlying Asset that it determines to be a Credit-Improved Asset unless, in connection with the Disposition of such Credit-Improved Asset, the Collateral Manager will certify in writing to the Trustee that:

(A) at the direction of the Collateral Manager, the Disposition Proceeds arising from the Disposition of such Credit-Improved Asset shall be transferred to the Principal Collection Account to be applied in accordance with the Priority of Payments; provided that (i) such Disposition Proceeds may not be reinvested and (ii) such Disposition Proceeds must be at least equal to the par value of the Credit-Improved Asset Disposed, or

(B) the Collateral Manager believes that the Issuer will be able to reinvest the Disposition Proceeds arising from the Disposition of such Credit-Improved Asset, within 60 days after such Credit-Improved Asset is Disposed of, in one or more additional Asset-Backed Securities or Synthetic Securities having an Aggregate Principal/Notional Balance at least equal to the Aggregate Principal/Notional Balance of the Credit-Improved Asset to be Disposed, and the Collateral Manager believes that after giving effect to such Disposition and the subsequent acquisition, the level of each of the Collateral Quality Tests, Coverage Tests and Eligibility Criteria, if failing, will be maintained or improved as compared to the test levels prior to such Disposition and subsequent acquisition;

provided however that after the Reinvestment Period, the Issuer may not Dispose of a Credit-Improved Asset and acquire another Underlying Asset pursuant to this paragraph unless, *additionally,*

(i) the Collateral Quality Tests are in compliance,

(ii) the Underlying Asset proposed to be acquired shall have a Moody's Rating and a Standard & Poor's Rating at least equal to the Moody's Rating and the Standard & Poor's Rating,

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respectively, of the Credit-Improved Asset to be Disposed,

(iii) the weighted average life of the Underlying Asset(s) proposed to be acquired following such Disposition shall be less than or equal to the weighted average life of the Credit-Improved Asset proposed to be Disposed; provided however, the Issuer may Dispose of a Credit-Improved Asset with a weighted average life less than the weighted average life of the Underlying Asset(s) proposed to be acquired following such Disposition if (A) the weighted average life of the Underlying Asset(s) proposed to be acquired following such Disposition shall be no more than two years greater than the weighted average life of the Credit-Improved Asset to be Disposed, (B) the Aggregate Principal/Notional Balance of all Credit-Improved Assets Disposed pursuant to this proviso does not exceed 25% of the Aggregate Principal Notional Balance of all Underlying Assets as of the Closing Date and (C) the date of such Disposition is no later than the date that is three years after the end of the Reinvestment Period and

(iv)(A) all Coverage Tests are satisfied prior to such Disposition, (B) the Collateral Manager believes that, after giving effect to such Disposition and the subsequent acquisition described in this paragraph all Coverage Tests will be satisfied and the level of each Coverage Test will be at least equal to its level prior to such Disposition and (C) the level of the Class D Overcollateralization Test is at least equal to 107.62%.

Discretionary Trading. At any time during the Reinvestment Period, the Collateral Manager, on behalf of the Issuer, may Dispose of (and acquire if applicable), any Underlying Asset if, in connection with the Disposition of such Underlying Asset and the acquisition of another Underlying Asset, as applicable, the Collateral Manager shall certify in writing to the Trustee that:

(i) the Collateral Manager believes in good faith that Disposition Proceeds relating to such Underlying Asset can be reinvested within 60 days after the Disposition of such Underlying Asset in one or more additional Underlying Assets such that the Aggregate Principal/Notional Balance of such additional Underlying Assets is greater than or equal to the Principal/Notional Balance of the Underlying Asset to be so Disposed,

(ii) the Aggregate Principal/Notional Balance of all Underlying Assets Disposed of pursuant to this paragraph during any calendar year (including the period from the Closing Date to the end of calendar year 2007), does not exceed 20% of the Net Outstanding Underlying Asset Balance as of the first day of such period (excluding, for the purposes of such calculation, the Disposition of any Credit-Risk Assets, Credit-

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improved Assets, Defaulted Assets, Equity Securities and Withholding Securities and any Underlying Asset Disposed by the entry of the Issuer into an Offsetting Transaction with respect to such Underlying Asset),

(iii) the Collateral Manager believes that after giving effect to such Disposition and the subsequent acquisition, the level of each of the Collateral Quality Tests, Coverage Tests and Eligibility Criteria, if failing, will be maintained or improved as compared to the test levels prior to such Disposition and subsequent acquisition;

(iv) and Moody's has not reduced the long term rating of any Class of Notes below the long term rating in effect on the Closing Date by one or more major rating categories.

The Disposition Proceeds of an Asset-Backed Security will be deposited in the Disposition Proceeds Account and, subject to the restrictions described in "Security for the Notes—Disposition of Underlying Assets," will be available to be reinvested in other Underlying Assets within 60 days following such Disposition or 90 days following such Disposition in the case of Credit-Risk Assets. Following such 60 or 90 day period, if not earlier transferred to the Principal Collection Account at the direction of the Collateral Manager, if such Disposition Proceeds have not been reinvested in any substitute Underlying Asset and remain in the Disposition Proceeds Account, such Disposition Proceeds shall be deposited in the Principal Collection Account and applied in accordance with the Priority of Payments.

For the avoidance of doubt, any certification that the Collateral Manager is required to make "in writing" to the Trustee in respect of a Disposition may be made in an email to the Trustee.

"Reinvestment Period" means the period from the Closing Date until the first to occur of (i) the Payment Date immediately following the date that the Collateral Manager, acting on behalf of the Issuer, notifies the Trustee and the other designated parties that, in light of the composition of the Assets, general market conditions and other factors, the Collateral Manager (in its sole discretion) has determined on behalf of the Issuer that investments in additional Underlying Assets within the foreseeable future would either be impractical or not beneficial, (ii) an Event of Default or (iii) the day after the Payment Date occurring in March 2009; *provided that* if the Collateral Manager had previously terminated the Reinvestment Period, the Collateral Manager may (in its sole discretion) reinstate the Reinvestment Period if the notice of reinstatement is delivered prior to the Determination Date for the Distribution Date

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	occurring in March 2009. Principal Proceeds from the Disposition of, or principal payments on, Underlying Assets that are Investment Grade may at the Collateral Manager's sole discretion (exercised on behalf of the Issuer) be deposited into (x) the Collection Account for investment on a later date in additional Underlying Assets that are Investment Grade, or (y) the Synthetic Collateral Account to be invested in Eligible Investments, in each case, in accordance with the Eligibility Criteria and the Collateral Quality Tests. See "Security for the Notes—Disposition of Underlying Assets."
Interest Rate Swap Agreement	Following the Closing Date, subject to satisfaction of the Rating Condition, the Issuer may enter into an interest rate swap in accordance with the Indenture (such interest rate swap, together with any replacement therefor or additional interest rate swap agreement entered into in accordance with the Indenture, the **"Interest Rate Swap Agreement"**). The **"Initial Interest Rate Swap Counterparty"** is expected to be Deutsche Bank AG or one of its affiliates. Any Interest Rate Swap Agreement will provide that the Issuer will pay to the Interest Rate Swap Counterparty on each related Distribution Date interest at a fixed rate on a specified notional amount, in exchange for which the Interest Rate Swap Counterparty will pay to the Issuer interest on such notional amount at a rate equal to three month LIBOR for the related calculation period. See "Security for the Notes—The Interest Rate Swap Agreement."
Synthetic Securities	On the Closing Date, the Issuer will have entered into a series of credit default swaps (each a **"Synthetic Security"**) with Deutsche Bank AG (in such role, the **"First Synthetic Security Counterparty"**). Each Synthetic Security will relate to a Reference Obligation whereby the Issuer will sell credit protection to the related Synthetic Security Counterparty on such Reference Obligation. Each Synthetic Security will be entered into pursuant to a 1992 ISDA Master Agreement (Multicurrency-Cross Border), including the schedule thereto (the **"Master Agreement"**), between the Issuer and a Synthetic Security Counterparty, and a separate confirmation of transaction (a **"Confirmation"**) evidencing the Synthetic Security thereunder. Each Confirmation may evidence several different transactions, each of which will be separate and distinct from all others documented under such Confirmation and relates to an individual Reference Obligation that is an Asset-Backed Security. The form of Confirmation for Reference Obligations that are RMBS Securities is attached hereto as **Schedule G**. The form of Confirmation for Reference

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Obligations that are ABX Tranche Securities is attached hereto as **Schedule H**. The form of Confirmation for Reference Obligations that are CMBS Securities is attached hereto as **Schedule I**. The form of Confirmation for Reference Obligations that are CDO Securities is attached hereto as **Schedule J**. The 2003 ISDA Credit Derivatives Definitions, as published by ISDA (the **"Credit Derivatives Definitions"**) will apply to, and be incorporated by reference into, each Synthetic Security. Any Synthetic Security documented under any of the forms of confirmation attached hereto as **Schedule G**, **Schedule H**, **Schedule I** and **Schedule J** is a **"Form-Approved Synthetic Security"** The Issuer may not enter into any Synthetic Security that is not a Form-Approved Synthetic Security unless the Rating Agency Condition is satisfied and, the Issuer may not enter into any Synthetic Security that is not a "pay as you go" swap unless the Issuer, or the Collateral Manager on behalf of the Issuer, requests and receives the recovery rate and rating applicable to such Synthetic Security from Standard & Poor's. For the avoidance of doubt, Offset Transactions and Offsetting Transactions will not be deemed to be Synthetic Securities.

Each Synthetic Security exposes the Issuer to the credit risk of a Reference Obligation. Each **"Reference Obligation,"** as of the related trade date, will be an Asset-Backed Security that satisfies the Eligibility Criteria.

During the Reinvestment Period, and only in accordance with the Eligibility Criteria, the Issuer may (i) enter into additional Synthetic Securities with the First Synthetic Security Counterparty and (ii) enter into new Synthetic Securities with other synthetic security counterparties (together with the First Synthetic Security Counterparty, the **"Synthetic Security Counterparties"**) made pursuant to a separate Master Agreement and Confirmation; *provided* that after giving effect to any such transaction, the Synthetic Security Collateral Amount equals or exceeds the Required Synthetic Security Collateral Amount. The **"Synthetic Security Collateral Amount"** equals on any date of determination, the amount on deposit in the related Synthetic Security Collateral Account, if any (including the Aggregate Principal/Notional Balance of the Eligible Investments on deposit in such account, but excluding all earnings on such Eligible Investments). The **"Required Synthetic Security Collateral Amount"** equals, with respect to each Synthetic Security Counterparty, on any date of determination, the Aggregate Principal/Notional Balance of all Synthetic Securities entered into with such Synthetic Security Counterparty. Each Master Agreement entered into with a Synthetic Security Counterparty shall be substantially identical to the Master Agreement entered into between the Issuer and

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the First Synthetic Security Counterparty prior to closing or, if not substantially identical, shall be approved by the First Synthetic Security Counterparty and each Rating Agency. Each Confirmation entered into with a Synthetic Security Counterparty shall be substantially similar to (w) the form of Confirmation attached hereto as **Schedule G** in the case of Reference Obligations that are RMBS Securities, (x) the form of Confirmation attached hereto as **Schedule H** in the case of Reference Obligations that are ABX Tranche Securities, (y) the form of Confirmation attached hereto as **Schedule I** in the case of Reference Obligations that are CMBS Securities or (z) the form of Confirmation attached hereto as **Schedule J** in the case of Reference Obligations that are CDO Securities or, if not substantially similar, shall be approved by each other Synthetic Security Counterparty and each Rating Agency.

The Synthetic Security Counterparty has the right in the event of an assignment of a Synthetic Security to reject any replacement for the Issuer, such right not to be unreasonably exercised. In deciding whether to approve or reject a replacement for the Issuer, the Synthetic Security Counterparty does not have to consider the interests of the Issuer or the Noteholders.

For a further description of the Synthetic Securities see "Security for the Notes— Underlying Assets Synthetic Securities" herein.

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Offsetting Transactions	On or after the Closing Date, the Issuer may enter into a series of credit default swaps (each an **"Offsetting Transaction"**) with one or more counterparties (each, an **"Offsetting Transaction Counterparty"**) required in order to hedge all or part of its credit exposure (determined as set out below) to one or more obligors under Synthetic Securities. The Offsetting Transaction Counterparty must be the same entity as the Synthetic Security Counterparty under the Synthetic Security being hedged. In the event that any such Offsetting Transaction is entered into in respect of all or part of a Synthetic Security, such Synthetic Security (or part thereof) will not be considered a Synthetic Security (the notional amount of such Synthetic Security so offset, the **"Offset Transaction"**). Offsetting Transactions must be Form-Approved Synthetic Securities. Each Offsetting Transaction will relate to a Reference Obligation whereby the Issuer purchases credit protection from the related Offsetting Transaction Counterparty on such Reference Obligation. An Offsetting Transaction shall hedge all or part of the Issuer's credit exposure if, in the reasonable judgment of the Collateral Manager acting on behalf of the Issuer, such Offsetting Transaction hedges the Issuer's risk of loss (in whole or in part) with respect to the relevant Synthetic Security and the Offsetting Transaction relates to the same Reference Obligation and provides for all obligations thereunder to have substantially the same characteristics as obligations specified in such Synthetic Security. Following an event of default or termination event with respect to an Offset Transaction, the related Offsetting Transaction will be required to terminate. An Offsetting Transaction may be terminated without termination of the related Offset Transaction only if (i) any termination payments due from the Issuer in respect of such termination will be paid from Principal Proceeds, (ii) such termination (and therefore the reconversion of the relevant Offset Transaction into a Synthetic Security) complies with all conditions applicable to the acquisition of an Underlying Asset and (iii) there are funds in the Principal Collection Account to adequately collateralize the Synthetic Security that the relevant Offset Transaction reconverts to as a result of the termination of the Offsetting Transaction.

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	The fixed amounts payable with respect to an Offsetting Transaction must be less than or equal to the fixed amounts payable with respect to the related Offset Transaction and in certain circumstances the Issuer may be required to make an upfront payment to the Offsetting Transaction Counterparty, which shall be made from Principal Proceeds. The difference between the Fixed Amount received with respect to an Offset Transaction and the Fixed Amount paid on the Offsetting Transaction shall be considered Principal Proceeds. Offsetting Transactions shall be limited to an aggregate notional amount equal to 20% of the Net Outstanding Underlying Asset Balance as of the Closing Date.
Initial Investment Agreement	Amounts on deposit in the Synthetic Security Collateral Account may be invested in Eligible Investments (as defined herein) and will initially be invested under an investment agreement, dated as of the Closing Date (such agreement, the "**Initial Investment Agreement**," and amounts so invested, the "**Investment**"), among the Issuer, the Trustee and GE Funding Capital Market Services, Inc., as investment agreement provider (in such capacity, the "**Initial Investment Agreement Provider**"). On the Closing Date, funds in an amount of at least $614,000,000 are expected to be invested as the Investment. Pursuant to the Initial Investment Agreement, the Initial Investment Agreement Provider will be required to pay interest at a *per annum* floating rate equal to three-month LIBOR minus 0.035% on the amounts invested thereunder. Interest on the Investment will accrue until the date the Initial Investment Agreement terminates or is terminated in accordance with its terms over each Interest Period and will be payable on the Business Day immediately prior to the Distribution Dates. On any Business Day of each month, subject to applicable notice requirements specified in the Initial Investment Agreement, the Trustee may make a withdrawal from the Initial Investment Agreement in order to make payments as described under Allocation Procedures. Immediately prior to the Final Maturity Date, the Trustee (acting pursuant to the Indenture on behalf of the Issuer) will have the right to demand payment in full under the Initial Investment Agreement (if it is then in effect). On the Final Maturity Date of the Notes, all net proceeds from such liquidation and all available cash will be distributed in accordance with the priority of distribution provisions described herein. The obligations of the Initial Investment Agreement Provider under the Initial Investment Agreement will be insured by a guarantee of General Electric Capital Corporation (the "**Guarantee** " and

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	together with the Initial Investment Agreement, the "**GIC**") to the extent specified therein. See "Security for the Notes—The Initial Investment Agreement", "Security for the Notes—The Initial Investment Agreement—The Initial Investment Agreement Provider".
Interest Payments on the Notes.....	The Class A-1a Notes will bear interest at a floating rate *per annum* equal to LIBOR *plus* 0.21%.
	The Class A-1b Notes will bear interest at a floating rate *per annum* equal to LIBOR *plus* 0.35%.
	The Class A-2 Notes will bear interest at a floating rate *per annum* equal to LIBOR *plus* 0.47%.
	The Class B Notes will bear interest at a floating rate *per annum* equal to LIBOR *plus* 0.68%.
	The Class C Notes will bear interest at a floating rate *per annum* equal to LIBOR *plus* 2.25%.
	The Class D Notes will bear interest at a floating rate *per annum* equal to LIBOR *plus* 4.75%.
	The Class E Notes will bear interest at a floating rate *per annum* equal to LIBOR *plus* 6.25%.
	The Preference Shares will receive any Excess Interest in accordance with the Priority of Payments.
	Interest on the Notes will be computed on the basis of a 360-day year and the actual number of days elapsed.
	Interest on the Notes will accrue from the Closing Date. Accrued and unpaid interest will be payable quarterly in arrears on each Distribution Date, if and to the extent that funds are available on such Distribution Date in accordance with the Priority of Payments set forth herein; provided that interest in respect of the Distribution Date falling in June 2007 (the "**First Distribution Date**") will be paid on a period of 89 days. See "Description of the Notes—Interest."
	Any interest on the Class C Notes, Class D Notes or Class E Notes that is not paid when due by operation of the Priority of Payments will be deferred ("**Deferred Interest**", or as applicable, "**Class C Deferred Interest**", "**Class D Deferred Interest**" or "**Class E Deferred Interest**"). Interest will accrue on any deferred interest. Failure to make payment in respect of interest on the Class C Notes, Class D Notes or Class E Notes on any Distribution Date by reason of the Priority of Payments will not constitute an Event of Default under the Indenture as long as a more Senior Class of Notes remains outstanding.

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	Upon the payment of Class C Deferred Interest, Class D Deferred Interest or Class E Deferred Interest, the deferred interest amount with respect to the Class C Notes, Class D Notes or the Class E Notes, as the case may be, will be reduced by the amount of such payment. Additionally, as long as any Class of Notes is outstanding if a Coverage Test applicable to such Class of Notes is not satisfied on any Determination Date relating to a Distribution Date, then Interest Proceeds that would otherwise be used to make payments in respect of interest on any Class of Notes Subordinate to such Class will be used instead to redeem, *first*, each Class (if any) of Notes Senior to such Class of Notes (sequentially in direct order of seniority) and, *second*, such Class of Notes, until each applicable Coverage Test is satisfied (or until each such Class of Notes is paid in full). See "Description of the Notes—Priority of Payments."
Maturity; Average Life; Duration.....	The stated maturity of the Notes is the December 12, 2045 Distribution Date (with respect to each Class of Notes, the **"Stated Maturity"**). Each Class of Notes will mature at the applicable Stated Maturity unless redeemed or repaid before the Stated Maturity. With respect to each Class of Notes, the earlier of the Stated Maturity and the Distribution Date on which the aggregate principal amount of such Class of Notes is paid in full, including a Redemption Date or an Accelerated Maturity Date, is referred to herein as the **"Final Maturity Date"**. The average life of each Class of Notes may be less than the number of years until its Stated Maturity. See "Maturity and Prepayment Considerations," "Risk Factors—Projections, Forecasts and Estimates" and "—Average Life of the Notes and Prepayment Considerations."
Principal Repayment of the Notes.....	Principal Proceeds will be applied on each Distribution Date in accordance with the Priority of Payments to pay principal of each Class of Notes and, to the extent that there are Excess Principal Proceeds, to pay a dividend on the Preference Shares. In addition, (a) if a Coverage Test is not satisfied on a Determination Date, Interest Proceeds will be applied on the immediately succeeding Distribution Date to pay principal of the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class E Notes, sequentially in order of seniority in sufficient amounts to satisfy each Coverage Test (or until each such Class of Notes is paid in full), (b) on any Distribution Date occurring on or before the last day of the Priority Distribution Period, Interest Proceeds

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	will be applied, in an amount available for such purpose, if any, on the relevant Distribution Date, to pay principal of the Class D Notes in an amount up to the Class D Priority Redemption Amount for such Distribution Date as set forth in **Schedule F** to this Offering Circular until 10.00% of the aggregate principal amount of the Class D Notes as of the Closing Date is redeemed; and on any Distribution Date occurring after March 2010, 15.00% of the Interest Proceeds that would otherwise be paid to the Preference Share Paying Agent for distribution to the holders of the Preference Shares will be applied to pay principal of the Class D Notes until the Class D Notes are paid in full, and
	(c) if no Optional Redemption, Auction Call Redemption, Clean-Up Call Redemption or Tax Redemption has been successfully completed before the Accelerated Amortization Date, on each Distribution Date occurring on or after the Accelerated Amortization Date, Interest Proceeds that would otherwise be paid to the Preference Share Paying Agent for distribution to the holders of the Preference Shares will be applied to pay, *first*, the principal of the Class E Notes, *second*, the principal of the Class D Notes, *third*, the principal of the Class C Notes, *fourth*, the principal of the Class B Notes, *fifth*, the principal of the Class A-2 Notes, *sixth*, the principal of the Class A-1b Notes and *seventh*, the principal of the Class A-1a Notes in each case until such Class has been paid in full,
	(d) if the Class E Diversion Test is not satisfied on a Determination Date, Interest Proceeds will be applied on the immediately succeeding Distribution Date to pay principal of the Class E Notes in sufficient amounts to satisfy the Class E Diversion Test,
	in each case, to the extent of funds available for such purposes in accordance with the Priority of Payments. See "Description of the Notes—Priority of Payments," "—Principal," "—Mandatory Redemption" and "—The Coverage Tests."
	The Issuer may redeem the Notes, in whole but not in part, at the applicable Redemption Price therefor at the times and under the circumstances described in "Description of the Notes—Auction Call Redemption," "—Optional Redemption", "—Clean-Up Call Redemption" and "—Tax Redemption."
Mandatory Redemption.....	The Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class E Notes will, on any Distribution Date, be subject to mandatory redemption from Interest

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	Proceeds in the event that any Coverage Test is not satisfied on that Determination Date. In addition, certain Principal Proceeds, to the extent available, will be applied on each Distribution Date (after payment of certain other amounts in accordance with the Priority of Payments) to repay the principal of each Class of Notes. Any such redemption from Interest Proceeds or Principal Proceeds will be applied to each outstanding Class of Notes sequentially in direct order of seniority and will otherwise be effected as described below under "Description of the Notes—Priority of Payments" and "—Mandatory Redemption."
Optional Redemption	Subject to certain conditions described herein, on any Distribution Date on or after the March 2010 Distribution Date, the Issuer may redeem the Notes (such redemption, an **"Optional Redemption"**), in whole but not in part, at the direction of the holders of at least sixty-six and two-thirds percent (66 2/3%) of the Preference Shares at the applicable Redemption Price therefor. Any such Optional Redemption may only be effected on a Distribution Date at the applicable Redemption Price and only from the Disposition Proceeds of all Collateral including Eligible Investments credited to the Accounts (other than that in the Interest Rate Swap Counterparty Collateral Account and the Synthetic Security Issuer Account) on such Distribution Date. No Optional Redemption may be effected, however, unless (i) all such Disposition Proceeds are used, in whole or in part, to make such an Optional Redemption and (ii) such Disposition Proceeds are at least equal to the Redemption Amount. See "Description of the Notes—Optional Redemption".
Auction Call Redemption of the Notes	If the Notes have not been redeemed in full on or prior to the Distribution Date occurring in June 2013 (the **"First Auction Call Date"**), and the Preference Shareholders have not directed an Optional Redemption, then an auction of the Underlying Assets will be conducted by the Auction Agent on behalf of the Issuer and, *provided* that certain conditions described herein are satisfied, the Underlying Assets will be sold and the Notes will be redeemable (an **"Auction Call Redemption"**), in whole but not in part and at the applicable Redemption Price, from the Disposition Proceeds of all Collateral including any Eligible Investments credited to the Accounts (other than that in the Interest Rate Swap Counterparty Collateral Account and the Synthetic Security Issuer Account); *provided* that funds under clauses (a) and (b) are sufficient to pay in full (i) the Redemption Amount and (ii) the Minimum Preference Share Redemption Amount. The **"Minimum Preference Share Redemption Amount"** equals (i) the aggregate liquidation preference of the Preference Shares *minus* (ii) the aggregate

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	amount of all cash distributions on the Preference Shares (whether in respect of dividends or redemption payments) made to the Preference Share Paying Agent for distribution to the Preference Shareholders prior to the relevant Auction Date. If such conditions are not satisfied and the Underlying Assets are not Disposed of prior to such Distribution Date, the Auction Agent will conduct an auction on a semi-annual basis prior to each subsequent Distribution Date (each, a **"Subsequent Auction Call Date,"** and, together with the First Auction Call Date, each, an **"Auction Date"**) until the Notes are redeemed in full. An auction conducted in connection with an Auction Call Redemption (an **"Auction"**) shall be carried out in accordance with the auction procedures set forth in Schedule A attached hereto (the **"Auction Procedures"**). See "Description of the Notes—Auction Call Redemption." Pursuant to the Management Agreement, the Issuer may designate the Collateral Manager as the Auction Agent (in such capacity, the **"Auction Agent"**) in connection with the sale of the Collateral in connection with any Auction Call Redemption; *provided* that if the Collateral Manager or any of its Affiliates is a bidder on the Collateral, the Collateral Manager shall resign as Auction Agent and the Auction Agent for that Auction shall be the Initial Purchaser, an Affiliate of the Initial Purchaser or another unaffiliated third party as successor Auction Agent. In no event, however, will the Initial Purchaser have any obligation to act as Auction Agent with respect to the Collateral. If an Auction Call Redemption is not successfully completed on any Auction Date, the Auction Agent shall conduct an Auction on each Subsequent Auction Call Date in accordance with the Auction Procedures on each subsequent Auction Date until an Auction Call Redemption is completed successfully. See "Schedule A—Auction Call Redemption—Auction Procedures."
Clean-Up Call Redemption	At the direction of the Collateral Manager, the Notes will be subject to redemption by the Issuer, in whole but not in part (a **"Clean-Up Call Redemption"**), at the applicable Redemption Price, on any Distribution Date selected by the Collateral Manager which occurs on or after the Distribution Date on which the aggregate outstanding principal amount of the Notes is less than or equal to 10.00% of the original aggregate outstanding principal amount of the Notes as of the Closing Date. Any such redemption may only be effected on a Distribution Date and only from the Disposition Proceeds of all Collateral including Eligible Investments credited to the Accounts (other than that in the Synthetic Security Issuer Account). See "Description of the Notes—Clean-Up Call Redemption."
Tax Redemption of the Notes.....	The Issuer may redeem the Notes (such redemption, a "Tax

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	Redemption"), in whole but not in part, at the direction of the Majority-in-Interest of Preference Shareholders or, so long as the Class A-1 Notes are Outstanding, of the Controlling Class; *provided that*, the Controlling Class may only direct a Tax Redemption in the event that, as a result of the relevant Tax Event, on a previous Payment Date one or more of the Class A-1a Notes, Class A-1b Notes, Class A-2 Notes or Class B Notes did not receive the amount that it otherwise would have received under the Priority of Payments in the absence of such Tax Event. Any such redemption may only be effected on a Distribution Date at the applicable Redemption Price and only from the Disposition Proceeds of all Collateral including the Eligible Investment credited to the Accounts (other than that in the Interest Rate Swap Counterparty Collateral Account and the Synthetic Security Issuer Account) on such Distribution Date. No Tax Redemption may be effected, however, unless (i) all such Disposition Proceeds are used, in whole or in part, to make such a Tax Redemption, (ii) such Disposition Proceeds are at least equal to the Redemption Amount, (iii) a Tax Event shall have occurred and (iv) the Tax Materiality Condition is satisfied. See "Description of the Notes—Tax Redemption."
Manner of Distribution	The Initial Purchaser is offering the Notes for sale to investors (**"Original Purchasers"**), subject to prior sale when, as and if issued, the approval of certain legal matters by counsel and the satisfaction of certain other conditions: (a) in the United States who are (i) Institutional Accredited Investors in reliance upon an exemption from registration provided by Section 4(2) of the Securities Act, or (ii) Qualified Institutional Buyers in reliance on the exemption from registration provided by Rule 144A and (b) outside the United States to persons that are not U.S. Persons in offshore transactions in reliance on Regulation S and in accordance with any applicable securities laws of any state of the United States and any other relevant jurisdiction. Notes offered for sale to a U.S. resident (within the meaning of the Investment Company Act) will be offered only to Qualified Purchasers. See "Plan of Distribution" and "Transfer Restrictions."
Ratings	It is a condition to the issuance of the Notes that Moody's and Standard & Poor's assign the following ratings to the Notes:

Class	Moody's	S&P
Class A-1a Notes	Aaa	AAA
Class A-1b Notes	Aaa	AAA
Class A-2 Notes	Aaa	AAA
Class B Notes	at least Aa2	at least AA

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	Class C Notes	at least A2	at least A
	Class D Notes	at least Baa2	at least BBB
	Class E Notes	at least Ba1	at least BB+

The ratings assigned to the Class A Notes and the Class B Notes by Standard & Poor's address the timely payment of interest on, and the ultimate payment of the principal of the Class A Notes and the Class B Notes. The ratings assigned to the Class C Notes, Class D Notes and Class E Notes by Standard & Poor's address the ultimate payment of principal of, and the ultimate payment of interest on, the Class C Notes, Class D Notes and Class E Notes. The ratings assigned to the Notes by Moody's address the ultimate cash receipt of all required payments as provided by the governing documents, and are based on the expected loss to the Noteholders of each Class relative to the promise of receiving the present value of such payments. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision at any time.

Minimum Denominations..... The Notes (or interests therein) will be issuable in minimum denominations of U.S.$500,000, and in integral multiples of U.S.$1,000 in excess thereof.

Form, Registration and Transfer of the Notes..... The Notes offered in reliance upon Regulation S (**"Regulation S Notes"**) initially will be represented by one or more Temporary Regulation S Global Notes in fully registered form without interest coupons attached, deposited with, and registered in the name of, DTC (or its nominee) initially for the accounts of Euroclear, and/or Clearstream.

On the 40th day after which all of the Notes of any Class have been sold to investors other than the Initial Purchaser or its Affiliates, and subject to the receipt by the Trustee of a certificate in the form provided by the Indenture from the person holding such interest, a beneficial interest in a Class of Temporary Regulation S Global Notes may be exchanged for an interest in a Permanent Regulation S Global Note of such Class in fully registered form without coupons, in an amount equal to the aggregate principal amount of such interest in the Temporary Regulation S Global Note.

Interests in the Regulation S Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants (including Euroclear and Clearstream). Until and including the 40th day after the later of the commencement of the offering

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and the closing of the offering of the Notes (the **"Distribution Compliance Period"**), interests in a Regulation S Global Note may be held only through Euroclear or Clearstream.

The Notes offered in the United States (**"Restricted Notes"**) will be represented by one or more Restricted Global Notes in fully registered form without interest coupons attached, deposited with, and registered in the name of, DTC (or its nominee). Interests in Restricted Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants.

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

No Note (or any interest therein) may be transferred to a transferee acquiring such Note in the form of an interest in a Global Note except (a) to a transferee whom the seller reasonably believes is (i) a Qualified Institutional Buyer that is a Qualified Purchaser or (ii) a non-U.S. Person in an offshore transaction in accordance with Regulation S, (b) in compliance with the certification (if any) and other requirements set forth in the Indenture, and (c) in accordance with any applicable securities laws of any state of the United States and any other relevant jurisdiction. See "Description of the Notes—Form, Denomination, Registration and Transfer" and "Transfer Restrictions."

The Preference Shares being offered by the Issuer in the United States in reliance upon an exemption from the registration requirements of the Securities Act (**"Rule 144A Preference Shares"**) will be represented by certificates in fully registered, definitive form registered in the name of the legal and beneficial owner thereof (or a nominee acting on behalf of the disclosed legal and beneficial owner thereof).

The Preference Shares offered by the Issuer outside the United States will be offered in reliance upon Regulation S under the Securities Act and initially will be represented by one or more temporary global share certificates (**"Temporary Regulation S Global Preference Shares"**), that will be exchangeable for one or more permanent global Preference Shares (**"Permanent Regulation S Global Preference Shares"** and, together with the Temporary Regulation S Global Preference Shares, the **"Regulation S Global Preference Shares"**) in fully registered form, deposited with and registered in the name of, DTC (or its nominee), initially for the accounts of Euroclear, and/or Clearstream. Until one year after the later of the commencement of the offering and the Closing Date (the

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	"Distribution Compliance Period"), beneficial interests in a Regulation S Global Preference Share may be held only through Euroclear or Clearstream. Under certain limited circumstances described herein, definitive registered share certificates may be issued in exchange for Regulation S Preference Shares. The Preference Shares are being offered, and may only be transferred, in minimum lots of 200 shares. The Rule 144A Preference Shares and the Regulation S Global Preference Shares will be subject to certain restrictions on sale and transferability.
Listing	Application will be made to the Irish Financial Services Regulatory Authority as competent authority under Directive 2003/71/EC, for the prospectus to be approved. Application will be made to the Irish Stock Exchange to admit the Notes to the Official List and trading on its regulated market. Such approval will relate only to Notes which are to be admitted to trading on the regulated market of the Irish Stock Exchange or other regulated markets for the purposes of Directive 93/22/EEC or which are to be offered to the public in any Member State of the European Economic Area. See "Listing and General Information." No application will be made to list the Notes on any other exchange.
Listing Agent and Irish Paying Agent	RSM Robson Rhodes LLP.
Governing Law	The Notes, the Indenture, the Subscription Agreement, the Collateral Administration Agreement, the Management Agreement, any Interest Rate Swap Agreement, each Synthetic Security, the Initial Investment Agreement, the Preference Share Paying Agency Agreement and the Note Purchase Agreement will be governed by the law of the State of New York. The Issuer Charter, the Preference Shares and the Administration Agreement will be governed by the law of the Cayman Islands.
Tax Matters	See "Tax Considerations."
Benefit Plan Investors	See "ERISA Considerations."

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RISK FACTORS

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

Risks Relating to the Notes

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

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

Limited-Recourse Obligations. The Notes and Preference Shares are limited-recourse obligations of the Issuer and the Co-Issuer. The Notes and Preference Shares are payable solely from the Underlying Assets and other Collateral pledged by the Issuer to secure the Notes. None of the security holders, members, officers, directors, managers or incorporators of the Issuer, the Co-Issuer, the Trustee, the Administrator, the Rating Agencies, the Synthetic Security Counterparty, the Offsetting Transaction Counterparty, the Share Trustee, the Collateral Manager, the Initial Purchaser, its Affiliates or any other person or entity will be obligated to make payments on the Notes or Preference Shares. Consequently, the holders of the Notes (the "**Noteholders**") must rely solely on amounts received in respect of the Underlying Assets and other Collateral pledged to secure the Notes for the payment of principal thereof and interest thereon. There can be no assurance that the distributions on the Underlying Assets and other Collateral pledged by the Issuer to secure the Notes will be sufficient to make payments on any Class of Notes, in particular after making payments on more Senior Classes of Notes and certain other required amounts ranking Senior to such Class. The ability of the Issuers to make payments in respect of any Class of Notes or the Preference Shares will be constrained by the terms of the Notes of Classes more Senior to such Notes or Preference Shares and the Indenture. If distributions on the Collateral are insufficient to make payments on the Notes, no other assets will be available for payment of the deficiency and, following liquidation of all the Collateral, the obligations of the Issuers to pay such deficiencies will be extinguished.

Limited Source of Funds to pay Expenses of the Issuer. The funds available to the Issuer to pay its expenses on any Distribution Date are limited to the Fee Cap Amount *plus* an amount up to U.S.$ 250,000 *per annum plus* any Interest Proceeds remaining after the payments described in clauses (1) through (18) under "Description of the Notes—Priority of Payments—Interest Proceeds" and, in some cases, a portion of the Principal Proceeds remaining after the payments described in clauses (1) through

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(13) under "Description of the Notes—Priority of Payments—Principal Proceeds." In the event that such funds are not sufficient to pay the expenses incurred by the Issuer, the ability of the Issuer to operate effectively may be impaired, and it may not be able to defend or prosecute legal proceedings brought against it or which it might otherwise bring to protect the interests of the Issuer or pay the expenses of legal proceedings against persons which the Issuer has indemnified.

Subordination of each Class of Subordinate Notes. No payment of interest on any Class of Notes will be made until all accrued interest due and payable on the Notes of each Class that is Senior to such Class has been paid in full. No payment of principal of any Class of Notes will be made until all principal of, and all accrued interest due and payable on, the Notes of each Class that is Senior to such Class have been paid in full, except:

(a) on any Distribution Date occurring on or before the last day of the Priority Distribution Period, Interest Proceeds will be applied, in an amount available for such purpose, if any, on the relevant Distribution Date, to pay principal of the Class D Notes in an amount up to the Class D Priority Redemption Amount for such Distribution Date as set forth in **Schedule F** to this Offering Circular until 10.00% of the aggregate principal amount of the Class D Notes as of the Closing Date is redeemed; and on any Distribution Date occurring after March 2010, 15.00% of the Interest Proceeds that would otherwise be paid to the Preference Share Paying Agent for distribution to the holders of the Preference Shares will be applied to pay principal of the Class D Notes until the Class D Notes are paid in full;

(b) on any Distribution Date occurring on or after the Accelerated Amortization Date and if any Class of Notes is outstanding, Interest Proceeds that would otherwise be paid to the Preference Share Paying Agent for distribution to the Preference Shareholders will be applied to pay, *first*, the principal of the Class E Notes, *second*, the principal of the Class D Notes, *third*, the principal of the Class C Notes, *fourth*, the principal of the Class B Notes, *fifth*, the principal of the Class A-2 Notes, *sixth*, the principal of the Class A-1b Notes and *seventh*, the principal of the Class A-1a Notes in each case until such Class has been paid in full; and

(c) if the Class E Diversion Test is not satisfied on a Determination Date, Interest Proceeds will be applied on the immediately succeeding Distribution Date to pay principal of the Class E Notes in sufficient amounts to satisfy the Class E Diversion Test. See "Description of the Notes—Priority of Payments."

Payments in respect of the Preference Shares are Subordinated to payments in respect of the Notes. Payments on the Preference Shares will be made only if either Excess Interest or Excess Principal Proceeds remain after making payments on the Notes in accordance with the Priority of Payments. No payment of interest on the Preference Shares will be made until all accrued interest due and payable on the Notes has been paid in full. Under certain circumstances described above under "*-Subordination of each Class of Subordinate Notes*" Interest Proceeds that would otherwise be payable to the Preference Shareholders will instead be applied to the reduction of the Outstanding Notes.

If an Event of Default occurs, so long as any Notes are outstanding, the holders of the most Senior Class of Notes then outstanding will be entitled to determine the remedies to be exercised under the Indenture. So long as a more Senior Class of Notes remains outstanding, failure to make payments in respect of interest on the Class C Notes, the Class D Notes or the Class E Notes, as the case may be, on any Distribution Date by reason of the Priority of Payments will not constitute an Event of Default under the Indenture. Any such unpaid interest will instead become Deferred Interest. In the event of any

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realization on the Collateral, proceeds will be allocated to the Notes and payment of other amounts in accordance with the Priority of Payments prior to any distribution to the Preference Shareholders. See "Description of the Notes—The Indenture" and "—Priority of Payments." Remedies pursued by the holders of the Class or Classes of Notes entitled to determine the exercise of such remedies could be adverse to the interest of the holders of the other Classes of Notes. To the extent that any losses are suffered by any of the holders of any Notes or Preference Shares, such losses will be borne, *first*, by the holders of the Preference Shares (the **"Preference Shareholders"**), *second*, by the holders of the Class E Notes, *third*, by the holders of the Class D Notes, *fourth*, by the holders of the Class C Notes, *fifth*, by the holders of the Class B Notes, *sixth*, by the holders of the Class A-2 Notes, *seventh*, by the holders of the Class A-1b Notes and *eighth*, by the holders of the Class A-1a Notes.

Volatility of the Subordinate Notes and the Preference Shares. The Subordinate Notes and the Preference Shares represent leveraged investments in the underlying Collateral. Therefore, it is expected that changes in the value of the Subordinate Notes and Preference Shares will be greater than the change in the value of the Underlying Assets, 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.

Priority Distribution Period; Accelerated Amortization. On any Distribution Date occurring (a)(i) on or before the last day of the Priority Distribution Period, Interest Proceeds will be applied, in an amount available for such purpose, if any, on the relevant Distribution Date, to pay principal of the Class D Notes in an amount up to the Class D Priority Redemption Amount for such Distribution Date as set forth in **Schedule F** to this Offering Circular until 10.00% of the aggregate principal amount of the Class D Notes as of the Closing Date is redeemed; and (ii) on any Distribution Date occurring after March 2010, 15.00% of the Interest Proceeds that would otherwise be paid to the Preference Share Paying Agent for distribution to the holders of the Preference Shares will be applied to pay principal of the Class D Notes until the Class D Notes are paid in full, or

(b) on or after the Accelerated Amortization Date, Interest Proceeds that would otherwise be paid to the Preference Share Paying Agent for distribution to the holders of the Preference Shares will be applied to pay, *first*, the principal of the Class E Notes, *second*, the principal of the Class D Notes, *third*, the principal of the Class C Notes, *fourth*, the principal of the Class B Notes, *fifth*, the principal of the Class A-2 Notes, *sixth*, the principal of the Class A-1b Notes and *seventh*, the principal of the Class A-1a Notes, in each case until such Class has been paid in full. By reason of such application of Interest Proceeds, the Class E Notes may be repaid in full prior to the full repayment of the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes. See "Description of the Notes—Priority of Payments—Interest Proceeds."

Investment Company Act. The Issuers have not registered with the United States Securities and Exchange Commission (the **"SEC"**) as an investment company pursuant to the Investment Company Act. The Issuer has not so registered in reliance on an exception for investment companies organized under the laws of a jurisdiction other than the United States or any state thereof (a) whose investors resident in the United States are solely "qualified purchasers" or "knowledgeable employees" (within the meaning given to such terms in the Investment Company Act and the regulations of the SEC thereunder) with respect to the Issuer or certain transferees thereof identified in Rule 3c-6 under the Investment Company Act and (b) which do not make a public offering of their securities in the United States. U.S. counsel for the Issuers will opine, in connection with the sale of the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class E Notes by the Initial Purchaser and the Preference Shares by

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the Issuer that neither the Issuer nor the Co-Issuer is on the Closing Date an investment company required to be registered under the Investment Company Act (assuming, for the purposes of such opinion, that the Notes or Preference Shares are sold by the Initial Purchaser or the Issuer, as the case may be, in accordance with the terms of the Note Purchase Agreement or, in the case of the Preference Shares and the Class E Notes, the Subscription Agreement). No opinion or no-action position has been requested of the SEC.

To rely on Section 3(c)(7) of the Investment Company Act, the Issuers must have a "reasonable belief" that all purchasers of the Notes and the Preference Shares (including the Initial Purchaser and subsequent transferees) are Qualified Purchasers. Given that transfers of beneficial interests in the Notes will generally be effected only through DTC and its participants and indirect participants without delivery of written transferee certifications to the Issuers, the Issuers will establish the existence of such a reasonable belief by means of the deemed representations, warranties and agreements described under "Transfer Restrictions," the agreements of the Initial Purchaser referred to under "Plan of Distribution" and the procedures described below. Although the SEC has stated that it is possible for an issuer of securities to satisfy the reasonable belief standard referred to above by establishing procedures to provide a means by which such Issuer can make a reasonable determination as to status of its securityholders as Qualified Purchasers, the SEC has not approved, and has stated that it will not approve, any particular set of procedures including the procedures described herein. Accordingly, there can be no assurance that the Issuers will have satisfied the reasonable belief standard referred to above.

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

Each purchaser of a Restricted Note or an interest therein will be deemed to represent and agree at the time of purchase that the purchaser (a) is a Qualified Institutional Buyer (or, in respect of certain Original Purchasers, an Institutional Accredited Investor), (b) is a Qualified Purchaser, (c) (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 and (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 (d) will provide written notice of the foregoing, and of any applicable restrictions on transfer, to any transferee.

The Indenture provides that if, notwithstanding the restrictions on transfer contained therein, either of the Issuers determines that any beneficial owner of a Restricted Note (or any interest therein) (a) is a U.S. Person and (b) is not both a Qualified Institutional Buyer (or, in respect of certain Original Purchasers, an Institutional Accredited Investor) and a Qualified Purchaser, then either of the Issuers may require, by notice to such beneficial owner, that such beneficial owner sell all of its right, title and interest to such Restricted Note (or interest therein) to a person that is (m) a non-U.S. Person in a transfer

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for an interest in a Regulation S Note, or (n) 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, (x) upon direction from the Collateral Manager or the Issuer, the Trustee, on behalf of and at the expense of the Issuer, shall cause such beneficial owner's interest in such Restricted Note to be transferred in a commercially reasonable sale (conducted by an investment bank selected by the Trustee with the consent of the Collateral Manager in accordance with Section 9-610(b) of the Uniform Commercial Code as in effect in the State of New York as applied to securities that are sold on a recognized market or that may decline speedily in value) to a person to whom such Restricted Note (or interest therein) may be transferred in accordance with the transfer restrictions set forth in the Indenture and (y) pending such transfer, no further payments will be made in respect of such Note held by such beneficial owner.

Mandatory Redemption. If a Coverage Test is not satisfied on a Determination Date, Interest Proceeds, to the extent funds are available in accordance with the Priority of Payments and to the extent necessary to restore the Coverage Test to certain minimum required levels, will be used to repay principal of the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class E Notes, sequentially in order of seniority on the immediately succeeding Distribution Date. In addition, certain Principal Proceeds, to the extent available, will be applied on each Distribution Date (after payment of certain other amounts) to repay the principal of each Class of Notes sequentially in direct order of seniority. Any of these events could result in an elimination, deferral or reduction in the interest payments or principal repayments made to the Noteholders or Preference Shareholders, which could adversely impact the returns of the holders of the Notes or Preference Shares. See "Description of the Notes—Principal,"—Mandatory Redemption" and "—Priority of Payments."

Optional Redemption. The Notes may be redeemed, in whole and not in part, pursuant to an Optional Redemption on any Distribution Date on or after the March 2010 Distribution Date at the direction of the holders of at least sixty-six and two-thirds percent (66 2/3%) of the Preference Shares, *provided* that no such Optional Redemption may be effected unless the Redemption Amount is paid in full on the date of such redemption in accordance with the Priority of Payments. See "Description of the Notes—Optional Redemption".

Interests of the holder of the Preference Shares in determining whether to elect to require an Optional Redemption of the Notes may be different from the interests of the holders of the Notes in such respect. The holders of the Notes may not be able to invest the proceeds of the redemption of their Notes in one or more comparable investments providing a return equal to or greater than the return such holders of the Notes expected to obtain from their investment in the Notes.

Auction Call Redemption. On the First Auction Call Date and on each subsequent Auction Date (unless previously redeemed or the holders of at least sixty-six and two-thirds percent (66 2/3%) of the Preference Shares have directed an Optional Redemption), the Notes shall be redeemable, in whole but not in part, pursuant to an Auction Call Redemption effected from (a) the Disposition Proceeds of all Collateral including Eligible Investments credited to the Accounts (other than that in the Interest Rate Swap Counterparty Collateral Account and the Synthetic Security Issuer Account), at the applicable Redemption Price; *provided* that no Auction Call Redemption shall be completed except in accordance with the Auction Procedures and unless funds under clauses (a) and (b) are sufficient to pay in full (i) the Redemption Amount and (ii) the Minimum Preference Share Redemption Amount. See "Description of the Notes—Auction Call Redemption" and "Schedule A—Auction Call Redemption—Auction Procedures."

Clean-Up Call Redemption. At the direction of the Collateral Manager, the Notes will be subject to redemption in whole but not in part, at their Redemption Price on or after the Distribution Date on which the aggregate outstanding principal amount of the Notes is less than or equal to 10.00% of the original

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aggregate outstanding principal amount of the Notes as of the Closing Date; *provided* that any such redemption is subject to certain conditions described below under "Description of the Notes—Clean-Up Call Redemption."

Tax Redemption. The Issuer may redeem the Notes, in whole but not in part, at the direction of the Majority-in-Interest of Preference Shareholders or, so long as the Class A-1 Notes are Outstanding, of the Controlling Class; provided that, the Controlling Class may only direct a Tax Redemption in the event that, as a result of the relevant Tax Event, on a previous Payment Date one or more of the Class A-1a Notes, Class A-1b Notes, Class A-2 Notes or Class B Notes did not receive the amount that it otherwise would have received under the Priority of Payments in the absence of such Tax Event. Any such redemption may only be effected on a Distribution Date and only from the Disposition Proceeds of all Collateral including the Eligible Investments credited to the Accounts (other than that in the Interest Rate Swap Counterparty Collateral Account and the Synthetic Security Issuer Account) on such Distribution Date, at the applicable Redemption Price. No Tax Redemption may be effected, however, unless (i) all such Disposition Proceeds are used, in whole or in part, to make such a Tax Redemption, (ii) such Disposition Proceeds are sufficient to pay in full the Redemption Amount, (iii) a Tax Event shall have occurred and (iv) the Tax Materiality Condition is satisfied. See "Description of the Notes—Tax Redemption." A Tax Redemption, if effected, may reduce amounts that would otherwise be paid to the Preference Share Paying Agent for distribution to the holders of the Preference Shares and, under certain circumstances, the Noteholders, which could adversely impact the returns of the Preference Shareholders and, under those circumstances, the Noteholders.

Accelerated Maturity Date. If an Event of Default occurs and is continuing and the conditions to liquidating the Collateral set forth herein are satisfied, the Trustee will use commercially reasonable efforts to liquidate the Collateral, including the termination or novation of the Synthetic Securities, and terminate any Interest Rate Swap Agreement and any Investment Agreement as per the terms thereof and, on the second Business Day (the **"Accelerated Maturity Date"**) following the Business Day on which the Trustee determines, or the Issuer (or the Collateral Manager on its behalf) notifies the Trustee, that such liquidation and such termination is completed, apply the proceeds thereof in accordance with the Priority of Payments described under "Description of the Notes—Priority of Payments—Interest Proceeds" and "—Principal Proceeds." See "Description of the Notes—The Indenture."

An Accelerated Maturity Date may occur (i) if there are insufficient proceeds to make any distribution on the Preference Shares or, (ii) if the holders of at least 66 2/3% in aggregate outstanding principal amount of each Class of Notes voting as a separate Class so direct, even if there are insufficient funds to pay the Redemption Price of each Class of Notes in full, *provided* that, so long as one or more Affiliates of the Collateral Manager is the holder of at least 66 2/3% in aggregate outstanding principal amount of the Class E Notes, such an Accelerated Maturity Date will require, effectively, the consent of one or more Affiliates of the Collateral Manager or (iii) (for so long as any Class A-1 Note remains Outstanding) with respect to an Event of Default under paragraph (a), (b) or (h) of the definition thereof if the holders of at least 66 2/3% in aggregate outstanding principal amount of the Controlling Class so directs.

Termination of Interest Rate Swap Agreement and Liquidation of Collateral Upon Redemption. Any Interest Rate Swap Agreement will terminate upon a Clean Up Call Redemption, Optional Redemption, Tax Redemption or Auction Call Redemption and on the Accelerated Maturity Date, which may require the Issuer to make a termination payment to any Interest Rate Swap Counterparty. Any such termination payment would reduce the proceeds available to be distributed on the Notes. Furthermore, if the Issuer enters into an Interest Rate Swap Agreement, in the event that on any date the Net Outstanding Underlying Asset Balance is less than the Notional Amount of the Interest Rate Swap

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Transaction, the Notional Amount of the Interest Rate Swap Transaction will be reduced such that the Notional Amount is equal to the Net Outstanding Underlying Asset Balance. The Issuer may owe a termination payment to the Interest Rate Swap Counterparty in connection with any Interest Rate Swap Termination. Any such payment would reduce the proceeds available to be distributed on the Notes. In addition, a Clean-Up Call Redemption, an Optional Redemption, a Tax Redemption, an Auction Call Redemption or the occurrence of an Accelerated Maturity Date may require the Collateral Manager to liquidate positions more rapidly than would otherwise be desirable, which could adversely affect the realized value of the Underlying Assets sold. Moreover, the Collateral Manager may be required, in order to Dispose of all the Underlying Assets, to aggregate Underlying Assets in a block transaction, thereby possibly resulting in a lower realized value for the Underlying Assets sold.

Early Termination of the Reinvestment Period. Although the Reinvestment Period is expected to terminate on the day after the Payment Date occurring in March 2009, the Reinvestment Period may terminate prior to such date (i) if the Collateral Manager, acting on behalf of the Issuer, notifies the Trustee and the other designated parties that, in light of the composition of the Underlying Assets, general market conditions and other factors, the Collateral Manager (in the Collateral Manager's sole discretion), acting on behalf of the Issuer has determined that investments in additional Assets within the foreseeable future would either be impractical or not beneficial or (ii) upon an Event of Default; *provided that* if the Collateral Manager had previously terminated the Reinvestment Period, the Collateral Manager may (in its sole discretion) reinstate the Reinvestment Period if the notice of reinstatement is delivered prior to the Determination Date for the Distribution Date occurring in March 2009.

If the Reinvestment Period terminates prior to the day after the Distribution Date occurring in March 2009, such early termination may affect the expected average lives of the Notes described under "*Maturity, Prepayment and Yield Considerations*".

Disposition of Underlying Assets by the Collateral Manager Under Certain Circumstances. Under the Indenture, during certain periods, the Collateral Manager has the right, but not the obligation, to Dispose of Underlying Assets that are Credit-Risk Assets, Defaulted Securities or Withholding Securities, subject to satisfaction of the conditions described herein. In addition, during the Reinvestment Period and subject to the satisfaction of certain conditions, the Collateral Manager may Dispose of and acquire other Underlying Assets on a discretionary basis. Such Disposition of Underlying Assets may result in losses by the Issuer, which losses may result in the reduction or withdrawal of the rating of any or all of the Notes by any of the Rating Agencies. On the other hand, circumstances may exist under which it is in the best interests of the Issuer to Dispose of Underlying Assets, but the Collateral Manager does not, or is not permitted to, exercise the right to purchase such assets.

Interest Rate Risk. The Notes bear interest at a rate based on three-month LIBOR as determined on the relevant LIBOR Determination Date. The Asset-Backed Securities will include obligations that bear interest at fixed rates or are subject to interest rate caps and the Synthetic Securities will pay fixed amounts. 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 such Notes and the fixed rate at which interest accrues on the fixed rate Underlying Assets and any limitation on floating rate created on Asset-Backed Securities by related interest rate caps. In addition, any payments of principal of or interest on the Underlying Assets received during a Due Period will be reinvested in Eligible Investments maturing not later than the next Distribution Date. There is no requirement that Eligible Investments bear interest at LIBOR, and the interest rates available for Eligible Investments are inherently uncertain. As a result of these mismatches, an increase in three-month LIBOR could adversely impact the ability of the Issuer to make payments on the Notes. With a view to mitigating a portion of such interest rate mismatch, the Issuer may after the Closing Date and subject to satisfaction of the Rating Condition, enter into an

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Interest Rate Swap Agreement. However, there can be no assurance that the Underlying Assets and Eligible Investments, together with such transactions under any Interest Rate Swap Agreement, will in all circumstances generate sufficient Interest Proceeds to make timely payments of interest on the Notes. Moreover, the benefits of such transactions under an Interest Rate Swap Agreement may not be achieved in the event of the early termination of the Interest Rate Swap Agreement, including termination upon the failure of the Issuer or the related Interest Rate Swap Counterparty to perform its obligations thereunder. See "Security for the Notes—The Interest Rate Swap Agreement."

Pursuant to the Indenture, the Issuer may (i) enter into an Interest Rate Swap Agreement or (ii) enter into an additional Interest Rate Swap Agreement only with the consent of the Collateral Manager and (a) the satisfaction of the Rating Condition and (b) with respect to any additional Interest Rate Swap Agreement, the Interest Rate Swap Counterparty consents to such additional Interest Rate Swap Agreement. If an Interest Rate Swap Agreement terminates it may be difficult or impossible for the Issuer to enter into a replacement Interest Rate Swap Agreement and sufficient Interest Proceeds may not be available to pay interest when due on one or more Classes of Notes. If interest is not paid on the most Senior Class of Notes then outstanding, an Event of Default under the Indenture may occur. In limited circumstances specified in the Interest Rate Swap Agreement, the Interest Rate Swap Counterparty may have the unilateral right to reduce the notional amount of such Interest Rate Swap Agreement, in which event the Issuer could be required to pay a termination payment to the Interest Rate Swap Counterparty.

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 and Prepayment Considerations."

The average life of each Class of Notes will be affected by the financial condition of the obligors on or issuers of the Underlying Assets, the characteristics of the Underlying Assets, 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 Underlying Assets and any dividends or other distributions received in respect of Equity Securities and the occurrence of the Auction Call Redemption. See "Maturity and Prepayment Considerations," "Security for the Notes" and "Description of the Notes—Auction Call Redemption."

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

As a condition to the payment of principal of and interest on any Notes without U.S. federal back-up withholding, the Issuers may require the delivery of properly completed and signed applicable U.S. federal income tax certifications (generally, an Internal Revenue Service Form W-9 (or applicable successor form) in the case of a person that is a "United States person" within the meaning of Section 7701(a)(30) of the Code or the applicable Internal Revenue Service Form W-8 BEN (or applicable successor form) in the case of a person that is not a "United States person" within the meaning of Section 7701(a)(30) of the Code).

Additional Taxes. The Issuer expects that payments received on the Underlying Assets, Eligible Investments and any Interest Rate Swap Agreement generally will not be subject to withholding or other taxes imposed by the United States. Payments on the Underlying Assets and Eligible Investments and

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under any Interest Rate Swap Agreement, however, might become subject to U.S. or other tax due to a change in law or other causes. Payments with respect to Equity Securities likely will be subject to withholding taxes imposed by the United States or other countries from which such payments are sourced. The imposition of unanticipated withholding taxes or tax on the Issuer's net income could materially impair the Issuer's ability to pay principal of and interest on the Notes and dividends and return of capital in respect of the Preference Shares. Upon the occurrence, solely as a result of Cayman Islands law, of any such events set forth in the preceding sentence, the Issuer will use its best endeavors to procure (i) the substitution of a company incorporated in another jurisdiction in which the relevant tax does not apply or (ii) the establishment of a branch office in another jurisdiction in which the relevant tax does not apply from which it will continue to carry out its functions under the Notes, subject in each case to the prior receipt by the Issuer and the Trustee of written confirmation from each Rating Agency that the rating of the Notes will not be adversely affected by such substitution or change of jurisdiction. As soon as practicable after such investigation, the Issuer will send written notice to the Trustee as to whether either of such actions will be taken by the Issuer. No assurance can be made that any such actions by the Issuer will eliminate any such withholding taxes or tax on the Issuer's net income.

Risks Relating to the Collateral

Nature of the Collateral. The Underlying Assets are subject to credit, liquidity, interest rate, market operations, fraud, structural, legal and other risks. In addition, during the Reinvestment Period, a significant portion of the Underlying Assets may be amortized or Disposed of after the Closing Date and replaced with new Underlying Assets and accordingly the financial performance of the Issuer may be affected by the price and availability of the Underlying Assets to be acquired. The amount and nature of the Collateral securing the Notes have been established to withstand certain assumed deficiencies in payment occasioned by defaults, writedowns, principal shortfalls and interest shortfalls in respect of the Underlying Assets. See "Ratings of the Notes". If any deficiencies arise, however, payment of the Notes and Preference Shares could be adversely affected. To the extent that a default occurs with respect to any Underlying Asset securing the Notes and the Issuer (upon the advice of the Collateral Manager) Disposes of such Underlying Asset, it is not likely that the proceeds of such Disposition will be equal to the amount of principal and interest owing to the Issuer in respect of such Underlying Asset. To the extent that a credit event occurs with respect to any Reference Obligation underlying any Synthetic Security securing the Notes, the Synthetic Security Counterparty will have an option to deliver to the Issuer such Reference Obligation against the payment by the Issuer of the Physical Settlement Amount (as defined in the related Confirmation). If the Issuer subsequently Disposes of such Reference Obligation, it is not likely that the proceeds thereof will be equal to the amount of principal and interest owing to the Issuer in respect of such Reference Obligation. In addition, if the Issuer is obligated to make a Floating Payment under a Synthetic Security, such Floating Payment would result in a reduction of the Principal/Notional Balance of such Synthetic Security, and, therefore, reduce the amounts payable by the Synthetic Security Counterparty, and reduce the amount of Interest Proceeds available to pay the Notes and Preference Shares. Any Floating Payment would reduce the Collateral that is available to pay the principal of the Notes and Preference Shares, and would expose the Issuer to reinvestment risk.

The market value of the Underlying Assets generally will fluctuate with, among other things, the financial condition of the obligors on or issuers of the Underlying Assets 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.

If an Underlying Asset becomes an Equity Security, Credit-Risk Asset, Defaulted Asset or Withholding Security, the Collateral Manager may or may not elect to Dispose of the affected asset.

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There can be no assurance as to the timing of the Collateral Manager's purchase of the affected asset, or as to the rates of recovery on such affected asset. The inability to realize immediate recoveries at the recovery levels assumed herein may result in lower cash flow and a lower yield to maturity of the Notes and Preference Shares.

Although the Issuer is permitted to invest in Asset-Backed Securities and Synthetic 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 Eligibility Criteria and the Collateral Quality Tests. At any time there may be a limited universe of investments that would satisfy the Eligibility Criteria and the Collateral Quality Tests given the other investments in the Issuer's portfolio. As a result, the Issuer may at times find it difficult to acquire suitable investments. See "Security for the Notes".

The ability of the Issuer to Dispose of Underlying Assets prior to maturity is subject to certain restrictions under the Indenture. Notwithstanding such restrictions and satisfaction of the conditions set forth in the Indenture, the acquisition and the Disposition of Underlying Assets could result in losses to the Issuer, which losses could affect the timing and amount of payments in respect of the Notes or Preference Shares or result in the reduction in or withdrawal of the rating on any or all of the Notes by one or more of the Rating Agencies.

Asset-Backed Securities. The Underlying Assets will consist of Asset-Backed Securities, which may include, without limitation, CMBS Securities, RMBS Securities, Automobile Securities, Small Business Loan Securities, Car Rental Fleet Securities, CDO Securities, Credit Card Securities, Equipment Lease Securities and Student Loan Securities, or Synthetic Securities with Reference Obligations as Asset-Backed 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 the Asset-Backed Securities. See "Security for the Notes—Underlying Assets—Asset-Backed Securities".

Holders of Asset-Backed Securities bear various risks, including interest rate risks, market risks, credit risks, liquidity risks, operations risks, structural risks and legal risks. 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 relative seniority or subordination of the class of Asset-Backed Security held by the investor, the process by which principal and interest payments are allocated to investors, how credit losses affect the issuing vehicle and the return to investors, whether collateral represents a static or revolving pool 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 issuing vehicle or to the investors. See "Security for the Notes—Underlying Assets—Asset-Backed Securities" below.

Liquidity risk can arise from an increase in perceived credit risk, as 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.

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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 the 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.

If the servicer becomes subject to financial difficulty or otherwise ceases to be able to carry out its function, it may be difficult to find other acceptable substitute servicers and cash flow disruptions or losses may occur. Structural and legal risks 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 reductions. Other similar risks relate to the degree to which cash flows on the assets of the Issuer may be commingled with those on the originator's other assets.

Residential ABS Securities. Most of the Underlying Assets will consist of Residential ABS Securities. Residential ABS Securities represent interests in pools of residential mortgage loans secured by one- to four-family residential mortgage loans. Such loans may be prepaid at any time. See "Maturity, Prepayment and Yield Considerations". 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, writedowns, principal shortfalls, interest shortfalls and losses on residential mortgage loans will be affected by a number of factors, including general economic conditions and those in the area where the related mortgaged property is located (including local property values), 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.

The risk of losses on residential mortgage loans is particularly relevant now. While there is always a risk of defaults or delinquencies in payment, recently losses on residential mortgage loans have been increasing and may continue to increase in the future. The losses have been most significant in respect of subprime mortgage loans but all classes of loans are affected.

A number of factors are contributing to the increase in losses. Residential property values that increased for many years are now declining or static in many states. Static or declining property values are expected to result in higher losses on mortgage loans when compared to an environment in which property values are increasing. Losses may be particularly high with respect to mortgage loans on properties that are not the borrower's primary residence, including second homes, investment properties and any loans where the property value is less than the remaining amount of the mortgage loan. Declining property values also exacerbate the losses due to a failure to apply adequate standards to potential borrowers. Failures to properly screen borrowers may include failures to do adequate due diligence on a borrower (including employment and income history) or the relevant property (including valuation) or failures to follow predatory lending and other borrower-protection statutes. Increases in interest rates may also contribute to higher rates of loss. Increases in interest rates require borrowers under adjustable rate mortgage loans to pay higher monthly payments. Higher monthly payments make it more likely that borrowers will be unable or unwilling to make payments on their loans.

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The increase in delinquencies and defaults has contributed to a declining market for mortgage loans. The declining market has, in turn, seriously impacted mortgage originators and servicers. In addition to losses due to delinquencies and defaults, mortgage originators and servicers face losses due to claims for repurchase under provisions in many mortgages that require repurchase due to a breach of a representation or and warranty regarding the relevant mortgage loan. The financial difficulties of servicers in particular are likely to result in losses in respect of securities backed by residential mortgage loans. Servicers of such securities are typically required to make advances of payment for delinquent loans. If the servicer is in financial difficulties, however, the servicer may not be able to provide such advances. In extreme cases, if a servicer is in bankruptcy or other insolvency proceedings it may not be required to make such advances. In addition, the servicer's obligation to make such advances may be limited due to the credit quality of the borrower under the relevant mortgage loans.

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

At any one time, the portfolio of Residential ABS 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, the related mortgaged properties may have a more limited market than those securing average-sized residential mortgage loans.

Each underlying residential mortgage loan in an issue of Residential ABS Securities may have a balloon payment due at its maturity date. Balloon residential mortgage loans involve a greater risk to a lender than self-amortizing loans because the ability of the 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 Residential ABS Securities may experience losses.

Commercial Mortgage-Backed Securities. Asset-Backed Securities include Commercial Mortgage-Backed Securities. Commercial Mortgage-Backed Securities are securities backed by obligations (including participation interests in obligations) that are principally secured by mortgages on real property or interests therein having a multifamily or commercial use, such as regional malls, other retail space, office buildings, industrial or warehouse properties, hotels, apartments, cooperatives, nursing homes and senior living centers. Commercial Mortgage-Backed Securities have been issued in public and private transactions by a variety of public and private issuers using a variety of structures, including senior and subordinated classes. Risks affecting real estate investments include general economic conditions, the condition of financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates. The cyclicality and leverage associated with real estate-

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related investments have historically resulted in periods, including significant periods, of adverse performance, including performance that may be materially more adverse than the performance associated with other investments. In addition, commercial mortgage loans generally are non-recourse loans, lack standardized terms, tend to have shorter maturities than residential mortgage loans and may provide for the payment of all or substantially all of the principal only at maturity. In some cases, the properties securing commercial mortgage loans may be subject to additional debt that may affect the related borrower's ability to refinance the loan and/or result in reduced cash flow and deferred maintenance. 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. All of these factors increase the risks involved with commercial real estate lending. Commercial properties tend to be unique and are more difficult to value than single-family residential properties. Commercial lending is generally viewed as exposing a lender to a greater risk of loss than residential mortgage lending since it typically involves larger loans to a single borrower or related borrowers than residential mortgage lending.

Commercial mortgage lenders typically look to the debt service coverage ratio of a loan secured by income-producing property as an important measure of the risk of default on such a loan. Commercial property values and net operating income are subject to volatility, and net operating income may be sufficient or insufficient to cover debt service on the related mortgage loan at any given time. The repayment of loans secured by income-producing properties is typically dependent upon the successful operation of the related real estate project rather than upon the liquidation value of the underlying real estate or the existence of independent income or assets of the borrower. Furthermore, the net operating income from and value of any commercial property may be adversely affected by risks generally incident to interests in real property, including events which the borrower or manager of the property, or the issuer or servicer of the related issuance of Commercial Mortgage-Backed Securities, 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; acts of God; acts of war; acts of terrorism; and social unrest and civil disturbances. The value of commercial real estate is also subject to a number of laws, such as laws regarding environmental clean-up and limitations on remedies imposed by bankruptcy laws and state laws regarding foreclosures and rights of redemption.

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 cases, the conversion of the commercial property to an alternative use would generally require substantial capital expenditures. Thus, if the borrower becomes unable to meet its obligations under the related commercial mortgage loan, the liquidation value of any such commercial property may be substantially less, relative to the amount outstanding on the related commercial mortgage loan, than would be the case if such commercial property were readily adaptable to other uses. The exercise of remedies and successful realization of liquidation proceeds may be highly dependent on the performance of Commercial Mortgage-Backed Securities servicers or special servicers, of which there may be a limited number and which may have conflicts of interest in any given situation.

Commercial Mortgage-Backed Securities may pay fixed or floating rates of interest. Fixed rate Commercial Mortgage-Backed Securities, like all fixed-income securities, generally decline in value as

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interest rates rise. Moreover, although generally the value of fixed-income securities increases during periods of falling interest rates, this inverse relationship may not be as marked in the case of Commercial Mortgage-Backed Securities due to the increased likelihood of prepayments during periods of falling interest rates. This effect is mitigated to some degree for mortgage loans providing for a period during which no prepayments may be made.

Mortgage loans underlying a Commercial Mortgage-Backed Securities issue may lack regular amortization of principal, resulting in a single "balloon" payment due at maturity. If the underlying mortgage borrower experiences business problems, or other factors limit refinancing alternatives, such balloon payment mortgages are likely to experience payment delays or even default.

Synthetic Securities. A portion of the Underlying Assets may consist of Synthetic Securities, the Reference Obligations of which are Asset-Backed Securities (primarily, Residential ABS Securities, CMBS Securities, ABX Tranche Securities and CDO Securities). Investments in such types of assets through the acquisition of Synthetic Securities present risks in addition to those resulting from direct acquisition of such Underlying Assets. With respect to Synthetic Securities, the Issuer will have a contractual relationship only with the counterparty of such Synthetic Security, and not the Reference Obligor on the Reference Obligation. The Issuer generally will have no right directly to enforce compliance by the Reference Obligor with the terms of either the Reference Obligation or any rights of set-off against the Reference Obligor, nor will the Issuer generally have any voting or other consensual rights of ownership with respect to the Reference Obligation.

Illiquidity of the Underlying Assets. Some of the Underlying Assets purchased by the Issuer will have no, or only a limited, trading market. The market for Synthetic Securities may be less liquid than the market for certain other types of financial assets. The Issuer's investment in illiquid Underlying Assets 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. Illiquid Underlying Assets may trade at a discount from comparable, more liquid investments. In addition, the Issuer may invest in privately placed Underlying Assets 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 Underlying Assets 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.

Exposure to Credit Risks - the Reference Obligations and the Synthetic Securities Counterparties. The obligation of the Issuer to make payments to each Synthetic Security Counterparty relating to the Synthetic Securities creates exposure to the credit risk of the Reference Obligations related to such Synthetic Securities. The funds available to make payments in respect of principal on the Notes and Preference Shares is dependent upon whether and to what extent payments are due and payable by the Issuer to a Synthetic Security Counterparty relating to the Synthetic Securities. Any settlement payments and termination payments payable by the Issuer (net of termination payments payable by a Synthetic Security Counterparty) due and owing to a Synthetic Security Counterparty will reduce the amount available to pay the obligations of the Issuer to the Noteholders and Preference Shareholders in inverse order of Seniority. Accordingly, the holders of the Preference Shares and then the Noteholders may lose all or a portion of their investment. The Issuer will not directly benefit from any collateral supporting the Reference Obligation and will not have the benefit of the remedies that would normally be available to a holder of such Reference Obligation.

In addition, in the event of the insolvency of the First Synthetic Security Counterparty or any other Synthetic Security Counterparty, the Issuer will be treated as a general unsecured creditor of such counterparty, and will not have any claim of title with respect to the Reference Obligation. Consequently, the Issuer will be subject to the credit risk of the counterparty as well as that of the Reference Obligor. As

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a result, concentrations of Synthetic Securities entered into with any one counterparty will subject the Notes and Preference Shares to an additional degree of risk with respect to defaults by or the insolvency of such counterparty as well as by the Reference Obligor. One or more Affiliates of the Initial Purchaser may act as counterparty with respect to all or a portion of the Synthetic Securities, which relationship may create certain conflicts of interest. See "—Conflicts of Interest Involving the Initial Purchaser" below.

Additionally, while the Issuer expects that the returns on a Synthetic Security will generally reflect those of the related Reference Obligation, as a result of the terms of the Synthetic Security and the assumption of the credit risk of the Synthetic Security Counterparty, a Synthetic Security may have a different expected return, a different (and potentially greater) probability of default and expected loss characteristics following a default, and a different expected recovery following default. Additionally, when compared to the related Reference Obligation, the terms of a Synthetic Security may provide for different maturities, payment dates, interest rates, interest rate references, credit exposures, or other credit or non-credit related characteristics. Upon maturity, default, acceleration or any other termination (including a put or call) other than pursuant to a credit event (as defined therein) of the Synthetic Security, the terms of the Synthetic Security may permit or require the issuer of such Synthetic Security to satisfy its obligations under the Synthetic Security by delivering to the Issuer securities other than the Reference Obligation or an amount different than the then current market value of the Reference Obligation.

If the Issuer is obligated to make a Floating Amount Payment under a Synthetic Security, such Floating Amount Payment may result in a reduction of the Principal/Notional Balance of such Synthetic Security, and therefore reduce the amounts payable by a Synthetic Security Counterparty and the amount of Interest Proceeds available to pay the Notes and Preference Shares. In addition, any Floating Amount Payment related to writedowns or failure to pay principal will reduce the Aggregate Principal/Notional Balance of Synthetic Securities that are available to pay the principal of the Notes and Preference Shares.

The ability of the Issuer to meet its obligations under the Notes will be dependent on the Issuer's receipt of payments from the Synthetic Security Counterparty pursuant to the Synthetic Securities. Consequently, in addition to relying on the creditworthiness of the reference obligors, the Issuer will also be relying upon the creditworthiness of the Synthetic Security Counterparty to perform its obligations under the Synthetic Securities.

Offsetting Transactions. As described herein, the Issuer may enter into certain Offsetting Transactions intended to hedge the Issuer's credit exposure in relation to certain Synthetic Securities. Such Offsetting Transactions are subject to certain risks including those described above in respect of Synthetic Securities. There can be no guarantee or assurance that any such Offsetting Transactions will effectively hedge all or any of the Issuer's exposure under the applicable Synthetic Security.

Limited Information with Respect to the Reference Obligations. Synthetic Security Counterparties are not required to hold any Reference Obligation. The Issuer will not have any right to obtain from the issuer of the Reference Obligations, any related trustee, fiscal agent, collateral manager or custodian information on the Reference Obligations or information regarding any obligation of any Reference Obligation. Synthetic Security Counterparties will have no obligation to keep the Issuer, the Trustee, the Collateral Manager, the Noteholders or the Preference Shareholders informed as to matters arising in relation to any Reference Obligation including whether or not circumstances exist under which there is a possibility of the occurrence of a Credit Event or an obligation to make Floating Amount Payments.

No Legal or Beneficial Interest in Reference Obligations. Under the Synthetic Securities, the Issuer will have a contractual relationship only with the Synthetic Security Counterparty and not with the issuer or obligor of any Reference Obligation. Consequently, the Synthetic Securities do not constitute an

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acquisition or other acquisition or assignment of any interest in any Reference Obligation. The Issuer generally will have no right to directly enforce compliance by the Reference Obligor with the terms of the Reference Obligation nor any rights of set-off or recourse against the Reference Obligor, nor have any voting or other consensual rights of ownership with respect to the Reference Obligation and will not have the benefit of the remedies that would normally be available to the holder of such Reference Obligation. The Issuer and the Trustee, therefore, will have rights solely against the related Synthetic Security Counterparty in accordance with the Synthetic Securities. In addition, neither a Synthetic Security Counterparty nor its affiliates will be (or deemed to be acting as) the agent or trustee of the Issuer, the Noteholders or the Preference Shareholders in connection with the exercise of, or the failure to exercise, any of the rights or powers of a Synthetic Security Counterparty and/or its affiliates arising under or in connection with their respective holding of any Reference Obligation. Each Synthetic Security Counterparty and its affiliates (i) may deal in any Reference Obligation, (ii) may generally engage in any kind of commercial or investment banking or other business transactions with any issuer of a Reference Obligation, and (iii) may act with respect to transactions described in the preceding clauses (i) and (ii) in the same manner as if a Synthetic Security Counterparty and the Notes did not exist and without regard to whether any such action might have an adverse affect on such Reference Obligation, the Issuer, the Preference Shareholders or the Noteholders.

Legal Risk relating to the Synthetic Securities. Initially the Synthetic Securities will be structured as "Pay As You Go" credit default swaps. "Pay As You Go" credit default swaps are a type of credit default swap that has been developed recently to reference, and incorporate certain terms of the unique structures of, Asset-Backed Securities. On November 10, 2006, the International Swaps and Derivatives Association, Inc. (**"ISDA"**) published its revised form of confirmation and a Standard Terms Supplement for a "Pay As You Go" transaction on a mortgage-backed security (the **"MBS Pay As You Go Form"**). On January 19, 2006 CDS IndexCo LLC published its form of confirmation for a "Pay As You Go" transaction on the ABX Index the **"ABX Pay As You Go Form"**). On June 7, 2006 ISDA published its form of confirmation for a **"Pay As You Go"** transaction on a collateralized debt obligation (the **"CDO Pay As You Go Form"** and, together with the MBS Pay As You Go Form and the ABX Pay As You Go Form, the **"Pay As You Go Forms"**). It is expected that the Synthetic Securities to which the Issuer will be a party will be based on modified versions of the Pay As You Go Forms. See *"Security for the Notes"* herein. While ISDA and CDS IndexCo LLC have published the Pay As You Go Forms and ISDA has published and supplemented the Credit Derivatives Definitions in order to facilitate transactions and promote uniformity in the credit default swap market, the credit default swap market is expected to change and the Pay As You Go Forms and the Credit Derivatives Definitions and terms applied to credit derivatives are subject to interpretation and further evolution. There can be no assurance that such forms will be substantially similar to the form Confirmations. Past events have shown that the views of market participants may differ as to how the Credit Derivatives Definitions operate or should operate. As a result of the continued evolution of the Pay As You Go Forms, each of the Synthetic Security confirmations to which the Issuer is from time to time a party may differ from the future market standard. Any difference between the Pay As You Go Forms and the forms used for the Synthetic Securities may have a negative impact on the liquidity and market value of such Synthetic Securities. In particular, the ABX Pay As You Go Form is only beginning to be used by market participants and many participants, including the Rating Agencies, are uncertain what terms are appropriate. Synthetic Securities based on the ABX Pay As You Go Form may be less liquid than those based on other Pay As You Go Forms.

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 or investors in the Notes or Preference Shares. Amendments or supplements to the "Pay-As-You-Go" credit default swap forms and amendments and supplements to the Credit Derivatives Definitions that are published by ISDA will not apply to the Synthetic Securities executed prior to such amendment or supplement unless the

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Issuer and the related Synthetic Security Counterparty agree to amend the Synthetic Securities to incorporate such amendments or supplements, and the Rating Condition is satisfied. For so long as any Class A-1 Notes remain Outstanding, the Issuer is required to provide prior notice of any such agreed amendment or supplement to the Controlling Class. In addition, the Issuer and the Synthetic Security Counterparty may enter into additional Synthetic Securities that incorporate such amendments and supplements as long as the Rating Condition has been satisfied. Markets in different jurisdictions have also already adopted and may continue to adopt different practices with respect to the Credit Derivatives Definitions. Furthermore, the Credit Derivatives Definitions may contain ambiguous provisions that are subject to interpretation and may result in consequences that are adverse to the Issuer. In addition to the credit risk of the Reference Obligations and the credit risk of the related Synthetic Security Counterparty, 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 investors in the Notes or Preference Shares or that the credit derivatives market generally may evolve in a manner that would be adverse to the Issuer or investors in the Notes or Preference Shares.

Synthetic Security Collateral Account and the Reliance on the Credit Worthiness of Eligible Investments held therein. The Synthetic Securities may require the Issuer to secure its obligations with respect to each such Synthetic Security. As directed by the Collateral Manager in writing, cash on deposit in the Synthetic Security Collateral Account on behalf of each Synthetic Security Counterparty will be invested in Eligible Investments. Amounts on deposit in the Synthetic Security Collateral Account will be applied, as directed by the Collateral Manager, to the payment of any amounts owed by the Issuer to each Synthetic Security Counterparty on the date any such amounts are due. Any Excess Collateral Account Amount will be withdrawn from the Synthetic Security Collateral Account and deposited to the Disposition Proceeds Account; *provided* that to the extent that any such withdrawal from the Synthetic Security Collateral Account would require a withdrawal from any Investment Agreement, such withdrawal may only be made in accordance with the terms of such Investment Agreement. Any income on Eligible Investments contained in the Synthetic Security Collateral Account will be withdrawn from such account and deposited in the Collection Account for distribution as Interest Proceeds. Cash and Eligible Investments on deposit in the Synthetic Security Collateral Account will be included in the Collateral to the extent provided under "Security for the Notes—General" herein, will not be available to make payments under the Notes or Preference Shares and shall not be considered to be an asset of the Issuer for purposes of any of the Collateral Quality Tests or the Coverage Tests, but the Synthetic Securities that relate to such Synthetic Security Collateral Account shall be considered an asset of the Issuer. The Issuer will bear the risk of any losses with respect to the Eligible Investments held in the Synthetic Security Collateral Account. Therefore, with respect to each Synthetic Security, the Issuer bears the risk of the Reference Obligation, the related Synthetic Security Counterparty and the credit and market risks relating to the Eligible Investments including credit risk with respect to any Investment Agreement that secure the Issuer's obligations with respect to such Synthetic Security.

Reliance on Creditworthiness of Investment Agreements. The amounts on deposit in the Synthetic Security Collateral Account are expected to be invested in Eligible Investments consisting initially of the Initial Investment Agreement and, accordingly, the Issuer will be exposed to the creditworthiness of the Initial Investment Agreement Provider and its guarantor. The insolvency of the Initial Investment Agreement Provider or a default by such parties under the Initial Investment Agreement, respectively, would adversely affect the ability of the Issuer to pay principal and interest when due under the Notes and distributions in respect of the Preference Shares and could result in a downgrade of the ratings on the Notes.

If an Investment Agreement is terminated as a result of an event of default or an uncured ratings downgrade condition as specified therein, the Issuer may enter into one or more replacement Investment

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agreements (each a **"Replacement Investment Agreement"**), and accordingly, the Issuer will be exposed to the creditworthiness of the related Replacement Investment Agreement provider (each a **"Replacement Investment Agreement Provider"**). See "Description of the Initial Investment Agreement—The Initial Investment Agreement".

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 and, therefore, credit ratings 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 Asset-Backed Securities and Reference Obligations will be used by the Collateral Manager only as a preliminary indicator of investment quality. Investments in non-investment grade and comparable unrated obligations will be more dependent on the Collateral Manager's credit analysis than would be the case with investments in investment-grade debt obligations.

International Investing. A limited portion of the Underlying Assets may consist of obligations of issuers organized under the law of the Bahamas, Bermuda, the Cayman Islands, the Channel Islands or the Netherlands Antilles. Moreover, 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: (a) less publicly available information; (b) varying levels of governmental regulation and supervision; and (c) the difficulty of enforcing legal rights in a foreign jurisdiction and uncertainties as to the status, interpretation and application of laws. Moreover, foreign companies are not subject to accounting, auditing and financial reporting standards, practices and requirements comparable to those applicable to U.S. companies.

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

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 Underlying Assets acquisitions due to settlement problems or the risk of intermediary counterparty failures could cause the Issuer to miss investment opportunities. The inability to Dispose of an Underlying Asset due to settlement problems could result either in losses to the Issuer due to subsequent declines in the value of such Underlying Asset 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

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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.

Other Considerations

Certain Conflicts of Interest. The activities of the Collateral Manager, the Initial Purchaser and its 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 investment activities of the Collateral Manager and its Affiliates. The Collateral Manager and its Affiliates may invest or invest for the account of others in debt obligations that would be appropriate as security for the Notes and have no duty in making such investments or to act in a way that is favorable to the Issuer, the Noteholders or the Preference Shareholders. Such investments may be different from those made on behalf of the Issuer. The Collateral Manager and its Affiliates may have economic interests in, or other relationships with, issuers in whose obligations or securities the Issuer may invest. In particular, a substantial portion of the Underlying Assets acquired by the Issuer from the Initial Purchaser were sold to the Initial Purchaser from portfolios of securities held by one or more of the Collateral Manager and its Affiliates. In addition, the Collateral Manager or its Affiliates 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 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 Underlying Assets") make investment recommendations and decisions that may be the same as or different from those made with respect to the Issuer's investments.

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.

The Collateral Manager also serves as a manager of one or more other companies organized to invest in Asset-Backed Securities. The Collateral Manager and its Affiliates may pursue its own interests as an owner of other securities issued by an issuer of Underlying Assets, without considering the effect of its actions or omissions on the Issuer. In addition, the Collateral Manager may act as the Auction Agent in an Auction Call Redemption of the Notes or may resign as Auction Agent and bid on any Underlying Assets that are sold pursuant to an Auction Call Redemption.

One or more Affiliates of the Collateral Manager will acquire all of the Preference Shares and may purchase some or all of the Class E Notes on the Closing Date. Pursuant to the Management Agreement, the Collateral Manager, in its capacity as holder of, or an advisor to the holder of Class E Notes and Preference Shares may, in such capacity, act in a manner which it determines to be in the best interests of a holder of Class E Notes and/or Preference Shares, without regard to the effect on the interests of other Noteholders. In addition, the Collateral Manager and its Affiliates may at times own any other Class of Notes. A portion of the purchase price of Notes and the Preference Shares to be acquired by the Collateral Manager or its Affiliates may be financed by the Initial Purchaser. At any given time, the Collateral Manager and its Affiliates will not be entitled to vote the Notes or Preference Shares beneficially owned by the Collateral Manager or any Affiliate thereof or by an account or fund for which

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the Collateral Manager or an Affiliate thereof acts as the investment adviser (with discretionary authority) (**"Collateral Manager Securities"**) with respect to any vote or consent on any assignment or termination of the Management Agreement (including the exercise of any rights to remove the Collateral Manager or terminate the Management Agreement) or any amendment or other modification of the 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 the Notes and Preference Shares held by them with respect to all other matters. For purposes hereof, **"Affiliate"** means, with respect to any person, (a) any other person who, directly or indirectly, is in control of, or controlled by, or is under common control with, such person, (b) any other person who is a director, officer, employee, managing member or general partner of (i) such person or (ii) any such other person described in clause (a) above, or (c) with respect to the Collateral Manager, any account or fund for which the Collateral Manager or any of the foregoing acts as investment advisor with discretionary authority. For the purposes of the foregoing definition, control of a person shall mean the power, direct or indirect, (x) to vote more than 50% of the securities having ordinary voting power for the election of directors of such person or (y) to direct or cause the direction of the management and policies of such person whether by contract or otherwise. The ownership of some or all of the Class E Notes and all of the Preference Shares by one or more Affiliates of the Collateral Manager may give the Collateral Manager an incentive to take actions that vary from the interests of the holders of the Notes.

Conflicts of Interest Involving the Initial Purchaser. Certain of the Asset-Backed Securities acquired by the Issuer may consist of obligations of issuers or obligors, or obligations sponsored or serviced by companies, for which DBSI as the Initial Purchaser or an Affiliate of DBSI has acted as underwriter, agent, placement agent or dealer or for which an Affiliate of DBSI has acted as lender or provided other administrative, commercial or investment banking services. In addition, if not the Auction Agent, the Initial Purchaser may bid on the Underlying Assets at any time the Issuer Disposes of an Underlying Asset. In addition, an Affiliate of the Initial Purchaser will be the First Synthetic Security Counterparty and may be Offsetting Transaction Counterparty. Also, as described under "Use of Proceeds", the Issuer, DBSI and Deutsche Bank AG Cayman Islands Branch (the **"Warehouse Lender"**), an Affiliate of DBSI, have entered into a credit agreement (the **"Warehouse Credit Agreement"**), pursuant to which the Warehouse Lender has financed the acquisition of certain Asset-Backed Securities and the payment of certain transaction-related fees and expenses prior to the Closing Date. On the Closing Date, the net proceeds from the sale of the Notes and the Preference Shares will be used by the Issuer to repay in full all amounts owing by the Issuer to the Warehouse Lender relating to the Warehouse Credit Agreement, and such revolving credit facility, along with the lien on the Asset-Backed Securities, the Offsetting Transactions and the Synthetic Securities securing it, will be terminated. See "Use of Proceeds".

Conflicts of Interest involving the Synthetic Security Counterparties and the Offsetting Transaction Counterparty. The First Synthetic Security Counterparty is an Affiliate of the Initial Purchaser and the Offsetting Transaction Counterparty may be an Affiliate of the Initial Purchaser. Each Synthetic Security Counterparty or Offsetting Transaction Counterparty may take actions under the related Synthetic Securities or Offsetting Transactions or otherwise that may be inconsistent with or adverse to the interests of the Noteholders. Synthetic Security Counterparties will not be obligated to take any action to minimize losses with respect to any Reference Obligation. In addition, each Synthetic Security Counterparty or Offsetting Transaction Counterparty has the right in the event of an assignment of a Synthetic Security (or Offsetting Transaction, as applicable) to reject any replacement for the Issuer, such right not to be unreasonably exercised. In deciding whether to approve or reject a replacement for the Issuer, the Synthetic Security Counterparty does not have to consider the interests of the Issuer or the Noteholders. See "Security for the Notes—Underlying Assets—Synthetic Securities—Assignment".

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Each Synthetic Security Counterparty, each Offsetting Transaction Counterparty and each of their affiliates may deal in any obligations or other securities of any Reference Obligor (including, but not limited to, any Reference Obligations), may enter into other credit derivatives involving entities that may include the Reference Obligors or their affiliates or sponsors (including credit derivatives to hedge its obligations under the Synthetic Securities or Offsetting Transactions), 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 Reference Obligor, any affiliate or sponsor of any Reference Obligor or any other person or other entity having obligations relating to any Reference Obligor or affiliate or sponsor of such Reference Obligor, and may act with respect to such business in the same manner as if the related Synthetic Securities and/or Offsetting Transactions did not exist, regardless of whether any such relationship or action might have an adverse effect on any Reference Obligations (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 transaction described herein or otherwise. Each Synthetic Security Counterparty, each Offsetting Transaction Counterparty and each of their affiliates may, whether by reason of the types of relationships described herein or otherwise, on the date hereof or at any time hereafter, be in possession of information in relation to any Reference Obligation, Reference Obligor or any of such Reference Obligor's sponsors or affiliates, that is or may be material in the context of the related Synthetic Securities or Offsetting Transactions and the other transaction documents and that may or may not be publicly available or known to the other parties to the transaction documents and which information each Synthetic Security Counterparty, each Offsetting Transaction Counterparty or their affiliates may be prohibited from using for the benefit of the Issuer. The Synthetic Securities, Offsetting Transactions and the other transaction documents do not create any obligation on the part of the related Synthetic Security Counterparty (or Offsetting Transaction Counterparty) and its affiliates to disclose to any other such party any such information (whether or not confidential). In addition, with respect to the deletion or addition of Reference Obligations in connection with any trading activity undertaken by the Collateral Manager on behalf of the Issuer, the related Synthetic Security Counterparty (or Offsetting Transaction Counterparty) is not obligated to agree to any such deletion or addition of a Reference Obligation and may make its decision whether to agree to any such deletion or addition on the basis of its own best interests and without regard to the interests of the Issuer or the Noteholders.

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 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 or the Initial Purchaser 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 Notes and Preference Shares. Such legislation and/or regulations could require the Issuer to implement additional restrictions on the transfer of the Notes and Preference Shares or interests therein. The Issuer reserves the right to request such information as is necessary to verify the identity of investors in the Notes and Preference Shares 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 Notes, Preference Shares or interests therein and the subscription monies relating thereto may be refused. In connection with the establishment of anti-money

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laundering procedures, the Issuer may implement additional restrictions on the transfer of Notes or Preference Shares.

Purchase of Underlying Assets. The Issuer will acquire Underlying Assets from a warehouse facility (the **"Warehouse Facility"**) provided by an affiliate of DBSI, which provides for the purchase of Asset-Backed Securities at the direction of the Collateral Manager on behalf of the Issuer prior to the Closing Date. In addition, a substantial portion of the Underlying Assets purchased by the Issuer are securities from portfolios of Asset-Backed Securities held, directly or indirectly, by the Collateral Manager or one or more Affiliates of, or investment funds managed by, the Collateral Manager.

Some of the Underlying Assets subject to the Warehouse Facility may have been originally acquired by DBSI or one of its Affiliates in connection with its underwriting or placement thereof upon issuance thereof or from the Collateral Manager or one of its Affiliates. The Warehouse Facility requires the Issuer to purchase Asset-Backed Securities eligible for inclusion in the Collateral on the Closing Date at a price equal to the price paid when DBSI or its Affiliate acquired such Asset-Backed Securities pursuant to the Warehouse Facility, plus accrued interest thereon, and net of any hedging gains or losses. As a result, the Issuer bears the risk of depreciation in the value of an Asset-Backed Security purchased under the Warehouse Facility. The Issuer will purchase, and DBSI and its Affiliates under the Warehouse Facility will sell, Asset-Backed Securities only to the extent that the Collateral Manager determines that such purchases are consistent with the restrictions contained in the Indenture.

If any such seller 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 could assert that Asset-Backed Securities acquired from such seller are property of such seller's insolvency estate. Property that such seller has pledged or assigned, or in which such seller has granted a security interest, as collateral security for the payment or performance of an obligation, would be property of such seller's estate. Property that such seller has sold or absolutely assigned and transferred to another party, however, is not property of such seller's estate. The Issuer does not expect that the purchase by the Issuer of Asset-Backed Securities, under the circumstances contemplated by this Offering Circular, will be deemed to be a pledge or collateral assignment (as opposed to the sale or other absolute transfer of such Asset-Backed Securities to the Issuer).

Relation to Prior Investment Results. The prior investment results of the Collateral Manager and the persons associated with the Collateral Manager or any other entity or person described herein are not indicative of the Issuer's future investment results. The nature of, and risks associated with, the Issuer's future investments may differ substantially from those investments and strategies undertaken historically by such persons and entities. There can be no assurance that the Issuer's investments will perform as well as the past investments of any such persons or entities.

Projections, Forecasts and Estimates. Any projections, forecasts and estimates contained herein are forward looking statements and are based upon certain assumptions that the Collateral Manager considers 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 actual allocation of the Underlying Assets among asset categories, mismatches between the timing of accrual and receipt of Interest Proceeds and Principal Proceeds from the Underlying Assets, defaults under Underlying Assets and the effectiveness of any Interest Rate Swap

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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 Purchaser or its 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 Purchaser, its affiliates or 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.

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DESCRIPTION OF THE NOTES

The Notes will be issued pursuant to the Indenture. The following summary describes certain provisions of the Notes and the Indenture. This summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the Indenture. Copies of the Indenture may be obtained by prospective investors upon request to the Trustee at 1761 East St. Andrew Place, Santa Ana, California 92705, or to RSM Robson Rhodes LLP (the **"Irish Paying Agent"**), at RSM House, Herbert Street, Dublin 2, Ireland.

Status and Security

The Notes will be limited-recourse debt obligations of the Issuers. The relative order of seniority of payment of each Class of Notes is as follows: *first*, Class A-1a Notes, *second*, Class A-1b Notes, *third*, Class A-2 Notes, *fourth*, Class B Notes, *fifth*, Class C Notes, *sixth*, Class D Notes and *seventh*, Class E Notes, with (a) each Class of Notes (other than the Class E Notes) in such list being **"Senior"** to each other Class of Notes that follows such Class of Notes in such list and (b) each Class of Notes (other than the Class A-1a Notes) in such list being **"Subordinate"** to each other Class of Notes that precedes such Class of Notes in such list. No payment of interest on any Class of Notes will be made until all accrued and unpaid interest on the Notes of each Class that is Senior to such Class and that remains outstanding has been paid in full in accordance with the Priority of Payments. Certain Principal Proceeds, to the extent available, will be applied on each Distribution Date in accordance with the Priority of Payments to pay principal of each Class of Notes.

Under the terms of the Indenture, the Issuer will grant to the Trustee for the benefit of the Secured Parties a first priority security interest in the Collateral described herein to secure the Issuer's obligations under the Indenture, the Notes, any Interest Rate Swap Agreement, the Synthetic Security Agreement, the Investment Agreement and the Management Agreement.

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

Interest

The Class A-1a Notes will bear interest at a floating rate *per annum* equal to LIBOR *plus* 0.21%.

The Class A-1b Notes will bear interest at a floating rate *per annum* equal to LIBOR *plus* 0.35%.

The Class A-2 Notes will bear interest at a floating rate *per annum* equal to LIBOR *plus* 0.47%.

The Class B Notes will bear interest at a floating rate *per annum* equal to LIBOR *plus* 0.68%.

The Class C Notes will bear interest at a floating rate *per annum* equal to LIBOR *plus* 2.25%.

The Class D Notes will bear interest at a floating rate *per annum* equal to LIBOR *plus* 4.75%.

The Class E Notes will bear interest at a floating rate *per annum* equal to LIBOR *plus* 6.25%.

Interest on the Notes will be computed on the basis of a 360-day year and the actual number of days elapsed. Interest will accrue on the aggregate outstanding principal amount of each Class of Notes

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(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. Interest accruing for any Interest Period will accrue for the period from and including the first day of such Interest Period to and including the last day of such Interest Period.

Accrued and unpaid interest will be payable in U.S. Dollars quarterly in arrears on the 12th day of each March, June, September and December commencing on June 12, 2007 (each such date, together with the Accelerated Maturity Date, a **"Distribution Date"**); *provided* that (i) the final scheduled Distribution Date shall be, with respect to each Class of Notes, the December 2045 Distribution Date, and (ii) if any such date is not a Business Day, the relevant Distribution Date will be the next succeeding Business Day.

In the event that any Distribution Date falls on a date 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 nominal Distribution Date, and any interest accrued for the period from or after such nominal date to the next succeeding Business Day shall not be payable on such Business Day but shall be payable on the next following Distribution Date.

As long as the Class A Notes, the Class B Notes, the Class C Notes or the Class D Notes are outstanding, if either Coverage Test applicable to such Class of Notes is not satisfied on any Determination Date, then Interest Proceeds that would otherwise be used to make payments in respect of interest on any Class of Notes Subordinate to such Class will be used instead to redeem, *first*, each Class (if any) of Notes Senior to such Class of Notes (sequentially in direct order of seniority) and, *second*, such Class of Notes, until each applicable Coverage Test is satisfied (or until each such Class of Notes is paid in full). See "—Priority of Payments."

Any interest on the Class C Notes, the Class D Notes and the Class E Notes that is not paid to such Class when due will be deferred (such interest being referred to herein as **"Deferred Interest"**; Deferred Interest in the case of the Class C Notes being referred to herein as **"Class C Deferred Interest"**, Deferred Interest in the case of the Class D Notes being referred to herein as **"Class D Deferred Interest"** and Deferred Interest in the case of the Class E Notes being referred to herein as **"Class E Deferred Interest"**); *provided* that no accrued interest on a Class of Notes shall become Deferred Interest unless a more Senior Class of Notes is then outstanding. Interest will accrue on the aggregate outstanding deferred amount at the rates of interest applicable to that Class of Notes. Upon the payment of Deferred Interest, the aggregate outstanding deferred amount with respect to the related Class of Notes will be reduced by the amount of such payment. So long as any more Senior Class of Notes remains outstanding, failure to make payment in respect of interest on the Class C Notes, the Class D Notes or the Class E Notes on any Distribution Date by reason of Priority of Payments will not constitute an Event of Default under the Indenture.

Interest will cease to accrue on each Note or, in the case of a partial repayment, on such part, from the date of repayment or Stated Maturity unless payment of principal is improperly withheld or unless default is otherwise made with respect to such payments. To the extent lawful and enforceable, interest on any Defaulted Interest on any Note will accrue at the interest rate applicable to such Note until paid. **"Defaulted Interest"** means any interest due and payable in respect of any Class A Note or any Class B Note or, if no Class A Notes or Class B Notes are outstanding, any Class C Note (other than Class C Deferred Interest), if no Class C Notes are outstanding, any Class D Notes (other than Class D Deferred Interest) or, if no Class D Notes are outstanding, any Class E Note (other than Class E Deferred Interest) that is not punctually paid or duly provided for on the applicable Distribution Date or at Stated Maturity. Defaulted Interest will not include Deferred Interest.

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"Interest Period" means (a) with respect to the June 2007 Distribution Date (the **"First Distribution Date"**) the period from, and including, the Closing Date to and excluding the First Distribution Date, and (b) with respect to each Distribution Date thereafter, the period from, and including, the immediately preceding Distribution Date and ending on, but excluding, such Distribution Date.

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

(a) LIBOR for any Interest Period shall equal the offered rate, as determined by the Calculation Agent, for Dollar deposits of the Designated Maturity which appears on Reuters Page "LIBOR01" (or such other page as may replace such Reuters Page "LIBOR01"for the purpose of displaying comparable rates), as reported by Bloomberg Financial Markets Commodities News, as of 11:00 a.m. (London time) on the applicable LIBOR Determination Date. **"LIBOR Determination Date"** means, with respect to any Interest Period, the second London Banking Day prior to the first day of such Interest Period.

(b) If, on any LIBOR Determination Date, such rate does not appear on Reuters Page "LIBOR01" (or such other page as may replace such Reuters Page "LIBOR01" for the purpose of displaying comparable rates), as reported by Bloomberg Financial Markets Commodities News, the Calculation Agent shall determine the arithmetic mean of the offered quotations of the Reference Banks to prime banks in the London interbank market for Dollar deposits of three months (except that in the case where such Interest Period shall commence on a day that is not a LIBOR Business Day, for a term of three months commencing on the next following LIBOR Business Day), by reference to requests for quotations as of approximately 11:00 a.m. (London time) on such LIBOR Determination Date made by the Calculation Agent to the Reference Banks. If, on any LIBOR Determination Date, at least two of the Reference Banks provide such quotations, LIBOR shall equal such arithmetic mean. If, on any LIBOR Determination Date, fewer than two Reference Banks provide such quotations, LIBOR shall be deemed to be the arithmetic mean of the offered quotations that leading banks in New York City selected by the Calculation Agent are quoting on the relevant LIBOR Determination Date for Dollar deposits for the term of such Interest Period (except that in the case where such Interest Period shall commence on a day that is not a LIBOR Business Day, for a term of three months commencing on the next following LIBOR Business Day), to the principal London offices of leading banks in the London interbank market.

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

(d) If the Calculation Agent is required but is unable to determine a rate in accordance with either procedure described in clauses (a) and (b) above, LIBOR with respect to such

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Interest Period shall be the arithmetic mean of the offered quotations of the Reference Dealers as of 10:00 a.m. (New York time) on the first day of such Interest Period for negotiable U.S. Dollar certificates of deposit of major U.S. money market banks having a remaining maturity closest to the Designated Maturity.

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

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

As used in the calculation of LIBOR above and elsewhere in this Offering Circular:

"Base Rate" means a fluctuating rate of interest determined by the Calculation Agent as being the rate of interest most recently announced by the Base Rate Reference Bank at its New York office as its 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 Deutsche Bank Trust Company Americas, 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 after consultation with the Collateral Manager.

"Designated Maturity" means, with respect to any Class of Notes for each Interest Period, three months; *provided that*, with respect to the First Distribution Date, the Designated Maturity shall be 89 days.

"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 after consultation with the Collateral Manager.

"Reference Dealers" means three major dealers in the secondary market for U.S. Dollar certificates of deposit, selected by the Calculation Agent after consultation with the Collateral Manager.

For so long as any Note remains outstanding, the 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. (London time) on the Business Day immediately following each LIBOR Determination Date, the Calculation Agent will calculate the interest rate for each Class of Notes for the related Interest Period and the amount of interest for such Interest Period payable in respect of each U.S.$1,000 in principal amount 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

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Issuers, the Trustee, each Paying Agent, Euroclear, Clearstream, DTC and (for so long as any Class of Notes is listed on the Irish Stock Exchange) the Irish Stock Exchange.

The Calculation Agent may be removed by the Issuers at any time. If the Calculation Agent is unable or unwilling to act as such or is removed by the Issuers, the Issuers will promptly appoint as a replacement Calculation Agent a leading bank that is engaged in transactions in 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 Issuers or any affiliate thereof. The Calculation Agent may not resign its duties without a successor having been duly appointed. The determination of the interest rate for each Class of Notes for each Interest Period by the Calculation Agent shall (in the absence of manifest error) be final and binding upon all parties.

Principal

The Stated Maturity of each Class of Notes is the December 2045 Distribution Date. Each Class of Notes will mature at the Stated Maturity unless redeemed or repaid prior to the Stated Maturity. However, the Notes may be paid in full prior to their Stated Maturity. With respect to each Class of Notes, the earlier of the Stated Maturity and the Distribution Date on which the aggregate principal amount of such Class of Notes is paid in full, including a Redemption Date or an Accelerated Maturity Date, is referred to herein as the **"Final Maturity Date"**. See "Risk Factors—Average Life of the Notes and Prepayment Considerations" and "Maturity and Prepayment Considerations." Any payment of principal with respect to any Class of Notes (including any payment of principal made in connection with the Final Maturity Date) 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.

Principal Proceeds will be applied on each Distribution Date in accordance with the Priority of Payments to pay principal of each Class of Notes. No payment of principal of any Class of Notes will be made until all principal of, and all accrued interest due and payable on, the Notes of each Class that is Senior to such Class have been paid in full.

However:

(a) on each Distribution Date occurring on or before the last day of the Priority Distribution Period, Interest Proceeds will be applied, in an amount available for such purpose, if any, on the relevant Distribution Date, to pay principal of the Class D Notes in an amount up to the Class D Priority Redemption Amount for such Distribution Date as set forth in **Schedule F** to this Offering Circular until 10.00% of the aggregate principal amount of the Class D Notes as of the Closing Date is redeemed; and on any Distribution Date occurring after March 2010, 15.00% of the Interest Proceeds that would otherwise be paid to the Preference Share Paying Agent for distribution to the holders of the Preference Shares will be applied to pay principal of the Class D Notes until the Class D Notes are paid in full;

(b) if no Optional Redemption, Auction Call Redemption, Clean-Up Call Redemption or Tax Redemption has been successfully completed before the Accelerated Amortization Date, on any Distribution Date occurring on or after the Accelerated Amortization Date, Interest Proceeds that would otherwise be paid to the Preference Share Paying Agent for distribution to the Preference Shareholders will be applied to pay, *first*, the principal of the Class E Notes, *second*, the principal of the Class D Notes, *third*, the principal of the Class C Notes, *fourth*, the principal of the Class B Notes, *fifth*, the principal of the Class A-2

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Notes, *sixth*, the principal of the Class A-1b Notes and *seventh*, the principal of the Class A-1a Notes, in each case until such Class has been paid in full; and

(c) if the Class E Diversion Test is not satisfied on a Determination Date, Interest Proceeds will be applied on the immediately succeeding Distribution Date to pay principal of the Class E Notes in sufficient amounts to satisfy the Class E Diversion Test. See "Description of the Notes—Priority of Payments."

Payments

Payments in respect of principal of and interest on any Note will be made to the person in whose name such Note is registered fifteen days prior to the applicable Distribution Date (the **"Record Date"**). Payments on each Note will be payable by wire transfer in immediately available funds to a Dollar-denominated account maintained by the holder thereof in accordance with wire transfer instructions received by any paying agent appointed under the Indenture (each, a **"Paying Agent"**) on or before the Record Date or, if no wire transfer instructions are received by a Paying Agent in respect of such Note, by a Dollar-denominated 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. **"Business Day"** means any day other than Saturday, Sunday or a day on which banking institutions are authorized or obligated by law, regulation or executive order to close in New York City, London or the city of the designated corporate trust office of the Trustee or, in the case of the final payment of principal of a Note or distribution of Excess Principal Proceeds with respect to a Preference Share, in the place of presentation of such Note or Preference Share. To the extent action is required of the Issuer that has not been delegated to the Trustee, the Collateral Manager or any agent of the Issuer located outside of the Cayman Islands, the Cayman Islands shall be considered in determining "Business Day" for purposes of determining when such Issuer action is required. To the extent action is required of the Irish Paying Agent, Ireland shall be considered in determining "Business Day" for purposes of determining when such Irish Paying Agent action is required.

For so long as the Notes are listed on the Irish Stock Exchange and the rules of such exchange shall so require, the Issuers will maintain a listing agent and a Paying Agent with an office in Ireland.

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

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Priority of Payments

With respect to any Distribution Date, collections received on the Collateral during each Due Period will be divided into Interest Proceeds and Principal Proceeds and applied in the priority set forth below under "—Interest Proceeds" and "—Principal Proceeds," respectively (collectively, the **"Priority of Payments"**). **"Due Period"** means, with respect to any Distribution Date, the period commencing immediately following the fifth Business Day prior to the 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 fifth Business Day prior to such Distribution Date (or, in the case of the Due Period that is applicable to the Distribution Date relating to the Stated Maturity of the Notes, such Due Period shall end on the day preceding the Stated Maturity).

Interest Proceeds. On each Distribution Date, Interest Proceeds with respect to the related Due Period will be distributed in the order of priority set forth below:

(1) to the payment of taxes, government fees and registered office fees owed by the Issuers, if any;

(2) up to a maximum amount on any Distribution Date equal to the Fee Cap Amount *plus* an amount up to U.S.$ 250,000 *per annum*, (a) *first*, in the following order of priority, to the payment to the Trustee, the Preference Share Paying Agent, the Collateral Administrator and the Administrator of accrued and unpaid fees owing to them under the Indenture; (b) *second*, to the payment of other accrued and unpaid administrative expenses (including indemnities) incurred by or on behalf of the Issuers (including any administrative expenses payable to the Collateral Manager, but excluding the Management Fee and the Auction Agent Fee, if applicable), *provided* that administrative expenses payable to Deutsche Bank Trust Company Americas (in all of its capacities) shall be paid prior to administrative expenses payable to any other party under this clause (2), administrative expenses payable to the Administrator shall be paid prior to administrative expenses payable to any party other than Deutsche Bank Trust Company Americas under this clause (2), and that administrative expenses payable to parties other than the Trustee and Administrator shall be paid *pro rata*; and (c) *third*, prior to the date on which amounts on deposit in the Expense Account are transferred to the Payment Account (in connection with the sale or disposition of substantially all of the Issuer's assets) for application as Interest Proceeds, for deposit in the Expense Account an amount equal to the lesser of (x) an amount sufficient to cause the balance of all Eligible Investments and cash in the Expense Account, immediately after such deposit, to equal U.S.$ 250,000, and (y) the amount by which the Fee Cap Amount exceeds the sums paid under clauses (a) and (b);

(3) to the payment, *pro rata*, of any amount scheduled to be paid (i) to the relevant Interest Rate Swap Counterparty pursuant to any Interest Rate Swap Agreement, together with any termination payments (and any accrued interest thereon) payable by the Issuer pursuant to any such Interest Rate Swap Agreement other than amounts payable by reason of an event of default or termination event as to which an Interest Rate Swap Counterparty under an Interest Rate Swap Agreement is the "defaulting party" or sole "affected party", (ii) to the relevant Synthetic Security Counterparty pursuant to any Synthetic Security or Offset Transaction, together with any termination payments (and any accrued interest thereon) payable by the Issuer pursuant to any such Synthetic Security or Offset Transaction other than amounts payable by reason of an event of default or termination event as to which the Synthetic Security Counterparty under the

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Synthetic Security or Offset Transaction is the "defaulting party" or sole "affected party" and (iii) to the Offsetting Transaction Counterparty pursuant to any Offsetting Transactions together with termination payments (and any accrued interest thereon) payable by the Issuer pursuant to any such Offsetting Transaction other than amounts payable by reason of an event of default or termination event as to which an Offsetting Transaction Counterparty is the "defaulting party" or the sole "affected party;"

(4) to the payment to the Collateral Manager of the accrued and unpaid Management Fee;

(5) *first* to the payment of accrued and unpaid interest on the Class A-1a Notes (including Defaulted Interest and any interest thereon), *second* to the payment of accrued and unpaid interest on the Class A-1b Notes (including Defaulted Interest and any interest thereon) and *third*, to the payment of accrued and unpaid interest on the Class A-2 Notes (including Defaulted Interest and any interest thereon);

(6) to the payment of accrued and unpaid interest on the Class B Notes (including Defaulted Interest and any interest thereon);

(7) if either Class A/B Coverage Test is not satisfied on the related Determination Date and if any Class A Note or Class B Note remains outstanding, to the payment of principal of, *first*, the Class A-1a Notes, *second*, the Class A-1b Notes, *third*, the Class A-2 Notes and *fourth*, the Class B Notes, in each case, to the extent necessary to cause each Class A/B Coverage Test to be satisfied or until such Class of Notes is redeemed in full;

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

(9) if either Class C Coverage Test is not satisfied on the related Determination Date and if any Class A Note, Class B Note or Class C Note remains outstanding, to the payment of principal of, *first*, the Class A-1a Notes, *second*, the Class A-1b Notes, *third*, the Class A-2 Notes, *fourth*, the Class B Notes and *fifth*, the Class C Notes, in each case, to the extent necessary to cause each of the Class C Coverage Tests to be satisfied or until such Class of Notes is redeemed in full;

(10) to the payment of Class C Deferred Interest, if any;

(11) to the payment of accrued and unpaid interest on the Class D Notes (including Defaulted Interest and any interest thereon and interest on Class D Deferred Interest, if any, but excluding any Class D Deferred Interest);

(12) if either Class D Coverage Test is not satisfied on the related Determination Date and if any Class A Note, Class B Note, Class C Note or Class D Note remains outstanding, to the payment of principal of, *first*, the Class A-1a Notes, *second*, the Class A-1b Notes, *third*, the Class A-2 Notes, *fourth*, the Class B Notes, *fifth*, the Class C Notes and *sixth*, the Class D Notes, in each case, to the extent necessary to cause each of the Class D Coverage Tests to be satisfied or until such Class of Notes is redeemed in full;

(13) to the payment of Class D Deferred Interest, if any;

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(14) to the payment of accrued and unpaid interest on the Class E Notes (including Defaulted Interest and interest thereon and interest on Class E Deferred Interest, if any, but excluding any Class E Deferred Interest);

(15) to the payment of Class E Deferred Interest, if any;

(16) if the Class E Diversion Test is not satisfied on the related Determination Date and if any Class A Note, Class B Note, Class C Note, Class D Note or Class E Note remains outstanding, to the payment of principal of the Class E Notes, in each case, to the extent necessary to cause the Class E Diversion Test to be satisfied or until such Class of Notes is redeemed in full;

(17) (i) on any Distribution Date occurring on or before the last day of the Priority Distribution Period, to the payment of principal of the Class D Notes in an amount up to the Class D Priority Redemption Amount for such Distribution Date as set forth in **Schedule F** to this Offering Circular until 10.00% of the aggregate principal amount of the Class D Notes as of the Closing Date is redeemed; and (ii) on any Distribution Date occurring after the March 2010 Distribution Date to the payment of principal of the Class D Notes until the Class D Notes are paid in full in an amount equal to 15.00% of the Interest Proceeds that would otherwise be paid on such Distribution Date under clause (21) below but for the application of this clause (17);

(18) to the payment, *pro rata*, of any termination payments (and any accrued interest thereon) payable by the Issuer pursuant to any Interest Rate Swap Agreement, the Synthetic Securities, the Offset Transactions or the Offsetting Transactions by reason of an event of default or termination event as to which the Interest Rate Swap Counterparty under such Interest Rate Swap Agreement or the Synthetic Security Counterparty under the Synthetic Securities or the Offset Transactions or the Offsetting Transaction Counterparty under the Offsetting Transactions is the "defaulting party" or the sole "affected party";

(19) to the payment of all other accrued and unpaid administrative expenses of the Issuers (including any accrued and unpaid fees and expenses owing to the Trustee, the Note Registrar, the Preference Share Paying Agent, the Collateral Manager (other than the Management Fee), the Auction Agent, the Share Registrar and the Administrator under the Indenture, the Management Agreement, the Preference Share Paying Agency Agreement and the Administration Agreement) not paid in full pursuant to and in the order stated in clause (2) above (whether as the result of the limitations on amounts set forth therein or otherwise);

(20) if no Optional Redemption, Auction Call Redemption, Clean-Up Call Redemption or Tax Redemption has been successfully completed before the Accelerated Amortization Date, on any Distribution Date occurring on or after the Accelerated Amortization Date, *first*, to the payment of principal of the Class E Notes until the Class E Notes have been paid in full, *second* to the payment of principal of the Class D Notes until the Class D Notes have been paid in full, *third*, to the payment of principal of the Class C Notes until the Class C Notes have been paid in full, *fourth*, to the payment of principal of the Class B Notes until the Class B Notes have been paid in full, *fifth*, to the payment of principal of the Class A-2 Notes until the Class A-2 Notes have been paid in full, *sixth*, to the payment of principal of the Class A-1b Notes until the Class A-1b Notes have been paid in full and *seventh*, to the payment of principal of the Class A-1a Notes until the Class A-1a Notes have been paid in full; and

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(21) the remainder (**"Excess Interest"**), to be released from the lien of the Indenture and paid (upon standing order of the Issuer) to the Preference Share Paying Agent for deposit into the Preference Share Payment Account for payment to the holders of the Preference Shares as a distribution by way of dividend thereon.

Principal Proceeds. On each Distribution Date, Principal Proceeds with respect to the related Due Period will be distributed in the order of priority set forth below:

(1) to the payment of the amounts referred to in clauses (1) through (6) under "—Interest Proceeds" in the same order of priority specified therein, but only to the extent not paid in full thereunder;

(2) so long as each of the Overcollateralization Tests is in compliance (after application of payments under all clauses under "— Interest Proceeds" and clause (1) above) and remains in compliance (after giving effect to the payments in this clause (2)), to the payment of accrued and unpaid interest on the Class C Notes, but only to the extent not paid in full in clause (8) under "—Interest Proceeds";

(3) so long as each of the Overcollateralization Tests is in compliance (after application of payments under all clauses under "— Interest Proceeds" and clauses (1) and (2) above) and remains in compliance (after giving effect to the payments in this clause (3)), to the payment of accrued and unpaid interest on the Class D Notes, but only to the extent not paid in full in clause (11) under "— Interest Proceeds";

(4) during the Reinvestment Period, Principal Proceeds from the Disposition of, or principal payments on, Underlying Assets that are Investment Grade may at the Collateral Manager's sole discretion (exercised on behalf of the Issuer) be deposited into (x) the Collection Account for investment on a later date in additional Underlying Assets that are Investment Grade, or (y) the Synthetic Collateral Account to be invested in Eligible Investments, in each case, in accordance with the Eligibility Criteria and the Collateral Quality Tests as more fully described herein and only if all Coverage Tests are satisfied and will be satisfied following such investment and the level of each Coverage Test will be at least equal to its level prior to such investment;

(5) *first*, to the payment of principal of the Class A-1a Notes until the Class A-1a Notes have been paid in full and *second*, to the payment of principal of the Class A-1b Notes until the Class A-1b Notes have been paid in full;

(6) to the payment of principal of the Class A-2 Notes until the Class A-2 Notes have been paid in full;

(7) to the payment of principal of the Class B Notes, until the Class B Notes have been paid in full;

(8) to the payment of amounts referred to in clause (8) and then clause (10) under "—Interest Proceeds," but only to the extent not paid in full thereunder or under clause (2) above;

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

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(10) to the payment of amounts referred to in clauses (11) and (13) under "—Interest Proceeds," but only to the extent not paid in full thereunder or under clause (3) above;

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

(12) to the payment of amounts referred to in clauses (14) and (15) under "—Interest Proceeds," but only to the extent not paid in full thereunder;

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

(14) to the payment of amounts referred to in clauses (18) and (19) under "—Interest Proceeds" in the same order of priority, but only to the extent not paid in full thereunder; and

(15) with respect to the remainder ("**Excess Principal Proceeds**"), to be released from the lien of the Indenture and paid (upon standing order of the Issuer) to the Preference Share Paying Agent for deposit into the Preference Share Payment Account for payment to the Preference Shareholders as a dividend on the Preference Shares or (on any date upon which the Preference Shares are redeemed) as payment by way of redemption of the Preference Shares as provided in the Issuer Charter.

Notwithstanding any of the foregoing provisions, on the Final Maturity Date, the Interest Proceeds, the Principal Proceeds and any funds in the Expense Account will be distributed in the following order of priority: (i) to make payments of the amounts referred to in clauses (1) through (4) under "—Interest Proceeds" in the same order of priority specified therein; (ii) to make payments on the Notes in the following order: *first*, to the payment of the accrued and unpaid interest (including any Defaulted Interest and any interest thereon) on the Class A-1a Notes, then to the payment of the accrued and unpaid interest (including any Defaulted Interest and any interest thereon) on the Class A-1b Notes and then to the payment of the accrued and unpaid interest (including any Defaulted Interest and any interest thereon) on the Class A-2 Notes, *second*, to the payment of the aggregate principal amount of the Class A-1a Notes, then to the payment of the aggregate principal amount of the Class A-1b Notes and then to the payment of the aggregate principal amount of the Class A-2 Notes, *third*, to the payment of the accrued and unpaid interest (including Defaulted Interest and any interest thereon) on the Class B Notes and then to the payment of the aggregate principal amount of the Class B Notes, *fourth*, to the payment of the accrued and unpaid interest (including any Class C Deferred Interest and any interest thereon, and any Defaulted Interest and any interest thereon) on the Class C Notes and then to the payment of the aggregate principal amount of the Class C Notes, *fifth*, to the payment of the accrued and unpaid interest (including any Class D Deferred Interest and any interest thereon, and any Defaulted Interest and any interest thereon) on the Class D Notes and then to the payment of the aggregate principal amount of the Class D Notes, and *sixth*, to the payment of the accrued and unpaid interest (including any Class E Deferred Interest and any interest thereon, and any Defaulted Interest and any interest thereon) on the Class E Notes and then to the payment of the aggregate principal amount of the Class E Notes, until each class is paid in full; (iii) to make payments of the amounts referred to in clauses (18) and (19) under "—Interest Proceeds" in the same order of priority specified therein and (iv) the remainder to make dividend or redemption payments, as applicable, to the Preference Shareholders.

In the event that Excess Interest or Excess Principal Proceeds cannot be distributed to the Preference Shareholders due to restrictions on such distributions under the laws of the Cayman Islands, the Issuer will notify the Preference Share Paying Agent and all such amounts will be held in the

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Preference Share Payment Account until the First Distribution Date or (in the case of any payment otherwise due on a redemption date of the Preference Shares) the first Business Day on which the Issuer notifies the Preference Share Paying Agent that such distribution can be made to the Preference Shareholders (subject to the availability of such amounts under Cayman Islands law to pay any liability of the Issuer not limited in recourse to the Collateral).

Except as otherwise expressly provided in the Priority of Payments, if, on any Distribution Date, the amount available in the Payment Account from amounts received in the related Due Period is insufficient to make the full amount of the disbursements required by any paragraph in this section to different Persons, the Trustee will make the disbursements called for by such paragraph ratably in accordance with the respective amounts of such disbursements then due and payable to the extent funds are available therefor.

On or prior to the latest Stated Maturity of the Notes, a redemption of the Preference Shares, a Mandatory Redemption, a Tax Redemption, a Clean-Up Call Redemption or an Auction Call Redemption, the Issuer (or the Collateral Manager acting pursuant to the Management Agreement on behalf of the Issuer) will Dispose of all of the Underlying Assets and all Eligible Investments and sell or liquidate all other Collateral; and, after the payment (in the order of priorities set forth above) of all (a) fees, (b) expenses (including any amount owing by the Issuer under any Interest Rate Swap Agreement), (c) interest (including any Defaulted Interest and interest on Defaulted Interest and any Deferred Interest and interest on Deferred Interest) on and principal of the Notes and (d) Excess Interest in respect of the Preference Shares, all remaining proceeds from such sales and liquidations and all available cash will be paid to the Preference Share Paying Agent for deposit into the Preference Share Payment Account for (subject to the restrictions on distributions under the laws of the Cayman Islands) payment to the Preference Shareholders as a distribution by way of redemption, whereupon all of the Notes and Preference Shares will be cancelled. The Issuer will be entitled to retain for its own account the 250 shares of common stock it holds in the Co-Issuer, the US$250 representing its share capital and U.S.$250 representing a profit fee to the Issuer, together with any interest accrued thereon.

"Accelerated Amortization Date" means, if no Optional Redemption, Auction Call Redemption, Clean-Up Call Redemption or Tax Redemption has been successfully completed before the June 2015 Distribution Date, such date.

"Aggregate Principal/Notional Balance" means, (i) when used with respect to one or more Underlying Assets, the sum of the Principal/Notional Balances of such Underlying Assets on the date of determination, and (ii) with respect to Eligible Investments, the aggregate Balance of such Eligible Investments.

"Applicable Recovery Rate" means, with respect to any Underlying Asset (which shall mean with respect to a Synthetic Security, the related Reference Obligation) on any Measurement Date, an amount equal to the lower of (a) the percentage for such Underlying Asset set forth in the Moody's Recovery Rate Matrix attached as **Schedule E** hereto in (i) the applicable table therein, (ii) the row in such table opposite the applicable percentage of the underlying capital structure and (iii) the column in such table below the Moody's Rating of such Underlying Asset as of the date of issuance of such Underlying Asset, or (b) the percentage for such Underlying Asset set forth in the Standard & Poor's Recovery Matrix attached as **Schedule D** hereto in (i) the applicable table, (ii) the row in such table opposite the Standard & Poor's Rating of such Underlying Asset as of the date of issuance of such Underlying Asset and (iii)(x) for purposes of determining the Standard & Poor's Recovery Rate, the column in such table below the current rating of the respective Class of Notes or (y) for purposes of determining the Calculation Amount, the column in such table below the current rating of the most senior

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Class of Notes outstanding; *provided however*, that the Applicable Recovery Rate with respect to ABX Tranche Securities shall be as assigned by the Rating Agencies.

"Bankruptcy Event" means with respect to any entity: (a) an involuntary proceeding shall be commenced or an involuntary petition shall be filed seeking (i) winding up, liquidation, reorganization or other relief in respect of such entity or its debts, or of a substantial part of its assets, under any bankruptcy, insolvency, receivership or similar law now or hereafter in effect or (ii) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for such entity or for a substantial part of its assets, and, in any such case, such proceeding or petition shall continue undismissed for 60 days; or an order or decree approving or ordering any of the foregoing shall be entered; or (b) such entity shall (i) voluntarily commence any proceeding or file any petition seeking winding up, liquidation, reorganization or other relief under any bankruptcy, insolvency, receivership or similar law now or hereafter in effect, (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or petition described in clause (a) of this definition, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for such entity or for a substantial part of its assets, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, or (v) make a general assignment for the benefit of creditors or (vi) take any action for the purpose of effecting any of the foregoing.

"Calculation Amount" means, with respect to any Defaulted Asset, at any time, the lesser of (i) the fair market value of such Defaulted Asset as determined by the Collateral Manager and (ii) the amount obtained by *multiplying* the Applicable Recovery Rate *by* the Principal/Notional Balance of such Defaulted Asset; *provided, however*, that (i) with respect to a Deferred Interest PIK Bond, the related Principal/Notional Balance of such bond shall not include the aggregate amount of any unpaid and deferred interest thereon and (ii) with respect to any Defaulted Asset that has been a Defaulted Asset for three or more years, the Calculation Amount shall be zero.

"Cap / Corridor Security" means any Floating Rate Security with respect to which either (i) the interest rate applicable in respect of such security is limited to a specified capped level or (ii) the interest rate applicable in respect of such security is limited to a level within specified maximum and minimum levels.

"Convertible Bond" means a bond, debenture or other fixed income security which may be exchanged by the owner for common stock or another security, usually of the same company, in accordance with the terms of the issue.

"Defaulted Asset" means any Underlying Asset (which shall mean with respect to a Synthetic Security, the related Reference Obligation) or any other security included in the Collateral:

(a) as to which (i) the issuer thereof has failed to make a scheduled payment of principal or interest without giving effect to any grace period or waiver; *provided* that a payment default of up to three (3) Business Days with respect to which the Collateral Manager certifies in writing to the Trustee, in its reasonable judgment, is due to non-credit and non-fraud related reasons shall not cause an Underlying Asset to be classified as a Defaulted Asset or (ii) pursuant to its Underlying Instruments, there has occurred any default or event of default which entitles the holders thereof, with notice or passage of time or both, to accelerate the maturity (whether by mandatory prepayment, mandatory redemption or otherwise) of all or a portion of the outstanding principal amount of such security, unless (A) in the case of a default or event of default consisting of a failure of the obligor on such security to make required interest payments, such security has resumed current payments of interest in cash (*provided* that no restructuring has been effected) or

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(B) in the case of any other default or event of default, such default or event of default is no longer continuing;

(b) that ranks *pari passu* with or subordinate to any other material indebtedness for borrowed money owed by the issuer of such Underlying Asset (for purposes hereof, **"Other Indebtedness"**) if such issuer had defaulted in the payment of principal or interest with respect to such Other Indebtedness; *provided* that a payment default of up to three (3) Business Days with respect to which the Collateral Manager certifies in writing to the Trustee, in its reasonable judgment, is due to non-credit and non-fraud related reasons shall not cause an Underlying Asset to be classified as a Defaulted Asset; *provided, further*, that in the case of a default or event of default consisting of a failure of the obligor on such security to make required interest payments, such Other Indebtedness has resumed current payments of interest (including all accrued interest) in cash (whether or not any waiver or restructuring has been effected), *provided* that a security shall be considered a Defaulted Asset pursuant to this clause (b) only if either (i) such default or event of default results in the assignment of a rating of "CC" or lower or "D" or "SD" by Standard & Poor's or "Ca" or "C" by Moody's, or (ii) the Collateral Manager, based upon due inquiry in accordance with the practices and procedures followed by investment managers of recognized standing, has obtained knowledge of such default or event of default and any characterization by the Collateral Manager of such security other than as a "Defaulted Asset" fails to satisfy the Rating Condition;

(c) as to which a Bankruptcy Event has occurred and is continuing with respect to an entity that is: (i) with respect to securities issued by an issuer directly, the special purpose entity that is the issuer of such securities, or (ii) with respect to securities issued by trusts to which an entity deposits assets, either (A) the special purpose entity that is the depositor to the trust that issues such securities, or (B) the trust that issues such securities;

(d) that is rated (i) "CC" or lower or "D" or "SD" by Standard & Poor's or a rating withdrawn by Standard & Poor's, or (ii) "Ca" or "C" by Moody's;

(e) that is a Deferred Interest PIK Bond; or

(f) which is a Synthetic Security with respect to which the relevant Synthetic Security Counterparty has defaulted in the performance of its payment obligations under such Synthetic Security.

"Deferred Interest PIK Bond" means a PIK Bond with respect to which payment of interest either in whole or in part has been deferred in an amount equal to (a) if such PIK Bond has a Moody's Rating of at least "Baa3", the amount of interest payable in respect of the lesser of (x) two payment periods and (y) a period of one year; or (b) if such PIK Bond has a Moody's Rating of below "Baa3", the amount of interest payable in respect of the lesser of (x) one payment period and (y) a period of six months, but only until such time as payment of interest on such PIK Bond has resumed and all capitalized and deferred interest has been paid in accordance with the terms of the relevant Underlying Instruments.

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

"Discount Underlying Asset" means (*provided that* with respect to any Synthetic Security, the "acquisition price" shall be deemed to be the market value of such Reference Obligation determined in accordance with Moody's methodology, as certified by the Collateral Manager):

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(i) any Underlying Asset (other than a Defaulted Asset) that is a Floating Rate Security and has a Moody's Rating of "Aa3" or higher acquired by the Issuer after the Closing Date for an acquisition price of less than 92% of the Principal/Notional Balance of such Underlying Asset, unless the market value for such Underlying Asset equals or exceeds 95% of the Principal/Notional Balance of such Underlying Asset (as certified by the Collateral Manager to the Trustee) for 60 consecutive days,

(ii) any Underlying Asset (other than a Defaulted Asset) that is a Fixed Rate Security and has a Moody's Rating of "Aa3" or higher acquired by the Issuer after the Closing Date for an acquisition price of less than 85% of the Principal/Notional Balance of such Underlying Asset, unless the market value for such Underlying Asset equals or exceeds 90% of the Principal/Notional Balance of such Underlying Asset (as certified by the Collateral Manager to the Trustee) for 60 consecutive days and

(iii) any Underlying Asset (other than a Defaulted Asset) that has a Moody's Rating below "Aa3" acquired by the Issuer after the Closing Date for an acquisition price of less than 75% of the Principal/Notional Balance of such Underlying Asset; *provided* that such Underlying Asset shall cease to be a Discount Underlying Asset at such time as the market value of such Underlying Asset equals or exceeds 85% of the Principal/Notional Balance of such Underlying Asset (as certified by the Collateral Manager to the Trustee) for 60 consecutive days;

provided that no Underlying Asset purchased prior to the Closing Date shall be deemed to be a Discount Underlying Asset.

"Eligible Country" means a Group I Country or a Group II Country, Austria, Denmark or a country that is an Eligible SPV Jurisdiction, provided that, at the time of such acquisition of any Asset, such country has a foreign currency credit rating of at least "AA" by Standard & Poor's and "Aa2" from Moody's.

"Eligible SPV Jurisdiction" means the Bahamas, the British Virgin Islands, the Cayman Islands, Bermuda, Luxembourg, the Netherlands Antilles, the Channel Islands, Jersey, Guernsey or (subject to satisfaction of the Rating Agency Condition) any similar jurisdiction, provided that the related obligor or issuer is a special purpose entity.

"Excepted Property" means (a) the Preference Share Payment Account and all of the funds and other property from time to time deposited in or credited to the Preference Share Payment Account and the proceeds thereof, (b) the 250 shares of common stock of the Co-Issuer, par value U.S.$1.00 per share, owned by the Issuer, (c) U.S.$250 representing the paid share capital on the ordinary shares of the Issuer, and (d) U.S.$250 representing a profit fee to the Issuer, together with any interest accruing thereon, and the trust account in which such monies are held.

"Fee Cap Amount" means, on any Distribution Date, 0.02% of the Quarterly Asset Amount *per annum* subject to an annual minimum of $60,000.

"Floating Rate Security" means (i) any Asset-Backed Security that is expressly stated to bear interest based upon a floating rate index and (ii) any Synthetic Security or Offset Transaction so designated by the Collateral Manager at the time of purchase.

"FICO Score" means the credit score developed by Fair Isaac & Co and provided by Experian (a subsidiary of GUS plc), Trans Union LLC or Equifax Inc.

"Fixed Rate Security" means any Asset-Backed Security other than a Floating Rate Security.

"Group I Countries" means Australia, Canada, the Netherlands and the United Kingdom.

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"Group II Countries" means Germany, Ireland, New Zealand, Sweden and Switzerland.

"Interest Only Security" means an Asset-Backed Security that does not provide for the repayment of a stated principal amount in one or more installments on or prior to the date three Business Days prior to the Stated Maturity of the Notes.

"Interest Proceeds" means, with respect to any Due Period:

(1) the sum (without duplication) of

(a) all payments of interest and other income on the Underlying Assets (other than Defaulted Securities) received in cash during such Due Period;

(b) all payments of interest (including any amount representing the accreted portion of a discount from the face amount of an Eligible Investment) on Eligible Investments in the Collection Accounts 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;

(c) 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 Underlying Assets and Eligible Investments (other than fees and commissions received in respect of Defaulted Securities and Written Down Securities and yield maintenance payments included in Principal Proceeds pursuant to clause (c) and clause (j) of the definition thereof);

(d) all payments of interest received in respect of a Defaulted Asset in excess of an amount equal to the Principal/Notional Balance of such security at the time it became a Defaulted Asset;

(e) all accrued interest received in cash by the Issuer in connection with the sale or liquidation of any Underlying Asset other than accrued interest purchased with Principal Proceeds;

(f) all payments received pursuant to any Interest Rate Swap Agreement (excluding any payments received by the Issuer by reason of an event of default or termination event) *less* any deferred premium payments, if any, payable by the Issuer under such Interest Rate Swap Agreement with respect to such Due Period;

(g) any amounts received from each Synthetic Security Counterparty relating to each Synthetic Security with respect to such Due Period (including any Fixed Amounts and Interest Shortfall Reimbursement Payment Amounts (as defined in **Schedule G** in the case of Reference Obligations that are RMBS Securities, **Schedule H** in the case of Reference Obligations that are ABX Tranche Securities, **Schedule I** in the case of Reference Obligations that are CMBS Securities or **Schedule J** in the case of Reference Obligations that are CDO Securities) but excluding, for the avoidance of doubt, any premium relating to the following Due Period), other than Writedown Reimbursement Payment Amounts, Principal Shortfall Reimbursement Payment Amounts (each as defined in **Schedule G** in the case of Reference Obligations that are RMBS Securities,

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Schedule H in the case of Reference Obligations that are ABX Tranche Securities, **Schedule I** in the case of Reference Obligations that are CMBS Securities or **Schedule J** in the case of Reference Obligations that are CDO Securities), any upfront payment or any termination payment received with respect to early termination of a Synthetic Security (including proceeds from liquidation of any collateral posted by the Synthetic Security Counterparty to secure its obligations under the Synthetic Securities);

(h) all earnings on Eligible Investments on deposit in the Synthetic Security Collateral Account that are transferred to the Interest Collection Account as described below under "Security for the Notes—The Accounts—Synthetic Security Collateral Account";

(i) all Earnings (as defined in the related Investment Agreement) received by the Issuer and payable under the Investment Agreement on or before the related Distribution Date; and

(j) all amounts on deposit in the Expense Account that are transferred to the Payment Account for application as Interest Proceeds as described below under "Security for the Notes—The Accounts—Expense Account"; *provided* that Interest Proceeds shall in no event include (i) any payment or proceeds specifically defined as "Principal Proceeds" in the definition thereof or (ii) the Excepted Property;

minus

(2) any Interest Shortfall Amounts paid by the Issuer to each Synthetic Security Counterparty.

"Inverse Floating Security" means any Floating Rate Security whose interest rate is inversely or otherwise not proportionately related to an interest rate index.

"Issue" means an Underlying Asset or Synthetic Security consisting of or referencing a single Asset-Backed Security, identified by its (i) series and class, and (ii) CUSIP number or other identifying number. For the avoidance of doubt, Underlying Assets or Synthetic Securities consisting of or referencing two Asset-Backed Securities issued by the same Issuer and issued in the same series, but in separate classes or tranches, shall be deemed to be separate Issues.

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

"Margin Stock" means "Margin stock" as defined under Regulations T, U and X issued by the Board of Governors of the Federal Reserve System.

"Measurement Date" means any of the following: (a) any date after the Closing Date on which an Underlying Asset becomes a Defaulted Asset, (b) each Determination Date, (c) the last Business Day of any calendar month (other than the month prior to which there is a Determination Date), and (d) with reasonable notice to the Issuer and the Trustee, any other Business Day that any Rating Agency 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.

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"Negative Amortization Security" means an Asset-Backed Security whose underlying portfolio consists of at least 25% of mortgages with a negative amortization feature.

"Net Outstanding Underlying Asset Balance" means, as of any Measurement Date, an amount equal to (a) the sum of (i) the Aggregate Principal/Notional Balance on such Measurement Date of all Underlying Assets, (ii) the Aggregate Principal/Notional Balance of all Principal Proceeds and Uninvested Proceeds held as cash, all Disposition Proceeds on deposit in the Disposition Proceeds Account and Eligible Investments purchased with Principal Proceeds or Uninvested Proceeds, and (iii) for each Defaulted Asset, the Calculation Amount with respect to such Defaulted Asset *minus* (b) the sum of the Aggregate Principal/Notional Balance on such Measurement Date of all Underlying Assets that are either (i) Defaulted Securities or (ii) Equity Securities; *provided* that solely for the purpose of calculating the Net Outstanding Underlying Asset Balance in connection with the Class A/B Overcollateralization Ratio, the Class C Overcollateralization Ratio, the Class D Overcollateralization Ratio and the Class E Diversion Test the Net Outstanding Underlying Asset Balance shall be calculated by applying whichever of the following clauses (i), (ii) and (iii) would result in the lowest calculated "Net Outstanding Underlying Asset Balance": (i) the Moody's Haircut Value, (ii) the Standard & Poor's Haircut Value and (iii) with respect to a Discount Underlying Asset, the original acquisition price of such Discount Underlying Asset.

For the purposes of this definition of "Net Outstanding Underlying Asset Balance", the following terms shall have the meanings set forth below:

"Moody's Haircut Value" shall have the following meaning for any Underlying Asset that has a Moody's Rating of below "Baa3", and no meaning for any Underlying Asset with a Moody's Rating of "Baa3" or higher (for the purpose of all clauses of the definition of Moody's Haircut Value, any reference to a Moody's Rating of an Underlying Asset shall, with respect to a Synthetic Security, mean a reference to the Moody's Rating of the related Reference Obligation):

(a) if on any date the Aggregate Principal/Notional Balance (determined without regard to this clause (a)) of all Underlying Assets (other than Defaulted Assets) that have a Moody's Rating of "Ba1", "Ba2" or "Ba3" exceeds 25.5% of the Aggregate Principal/Notional Balance of all Underlying Assets and Principal Proceeds (**"Moody's Limit 1"**), then the Aggregate Principal/Notional Balance of the Underlying Assets constituting such excess shall be deemed to equal 90% of the actual Aggregate Principal/Notional Balance of such Underlying Assets (determined without regard to this clause (a));

(b) if on any date the Aggregate Principal/Notional Balance (determined without regard to this clause (b)) of all Underlying Assets (other than Defaulted Assets) that have a Moody's Rating of "B1", "B2" or "B3" exceeds 0% of the Aggregate Principal/Notional Balance of all Underlying Assets and Principal Proceeds (**"Moody's Limit 2"**), then the Aggregate Principal/Notional Balance of the Underlying Assets constituting such excess shall be deemed to equal 80% of the actual Aggregate Principal/Notional Balance of such Underlying Assets (determined without regard to this clause (b)); and

(c) if such Underlying Assets (other than Defaulted Assets) have a Moody's Rating of below "B3" exceeds 0% of the Aggregate Principal/Notional Balance of all Underlying Assets and Principal Proceeds, then the Aggregate Principal/Notional Balance of such Underlying Assets shall be deemed to equal 50% of the actual

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Aggregate Principal/Notional Balance of such Underlying Assets (determined without regard to this clause (c));

provided that the reductions contemplated by clauses (a), (b) and (c) immediately above shall be without duplication; *provided further* that each of Moody's Limit 1 and Moody's Limit 2 may be up to 5 percentage points larger than set out above (as determined by the Trustee in a manner maximizing the Net Outstanding Underlying Asset Balance as of the date of determination) so long as the aggregate of Moody's Limit 1 and Moody's Limit 2 is not more than 30.5%.

"Standard & Poor's Haircut Value" shall have the following meaning set forth in clauses (a) and (b) below for any Underlying Asset that has a Standard & Poor's Rating of below "BBB-", and no meaning for any Underlying Asset that has a Standard & Poor's Rating of "BBB-" or higher. For the purpose of all clauses of the definition of Standard & Poor's Haircut Value, any reference to a Standard & Poor's Rating of an Underlying Asset shall, with respect to a Synthetic Security, mean a reference to a Standard & Poor's Rating of the related Reference Obligation:

(a) if on any date the Aggregate Principal/Notional Balance (determined without regard to this clause (a)) of all Underlying Assets (other than Defaulted Assets) that have a Standard & Poor's Rating of "BB+", "BB" or "BB-" exceeds 8.6% of the Aggregate Principal/Notional Balance of all Underlying Assets and Principal Proceeds (**"S&P Limit 1"**), then the Aggregate Principal/Notional Balance of the Underlying Assets constituting such excess shall be deemed to equal 90% of the actual Aggregate Principal/Notional Balance of such Underlying Assets (determined without regard to this clause (a));

(b) if on any date the Aggregate Principal/Notional Balance (determined without regard to this clause (b)) of all Underlying Assets (other than Defaulted Assets) that have a Standard & Poor's Rating of "B+", "B" or "B-" exceeds 0% of the Aggregate Principal/Notional Balance of all Underlying Assets and Principal Proceeds (**"S&P Limit 2"**), then the Aggregate Principal/Notional Balance of the Underlying Assets constituting such excess shall be deemed to equal 80% of the actual Aggregate Principal/Notional Balance of such Underlying Assets (determined without regard to this clause (b)); and

(c) if such Underlying Assets (other than Defaulted Assets) have a Standard & Poor's Rating of below "B-" exceeds 0% of the Aggregate Principal/Notional Balance of all Underlying Assets and Principal Proceeds (**"S&P Limit 3"**), then the Aggregate Principal/Notional Balance of such Underlying Assets shall be deemed to equal 70% of the actual Aggregate Principal/Notional Balance of such Underlying Assets (determined without regard to this clause (c));

provided that the reductions contemplated by clauses (a), (b) and (c) immediately above shall be without duplication; *provided further* that each of S&P Limit 1, S&P Limit 2 and S&P Limit 3 may be up to 5 percentage points larger than set out above (as determined by the Trustee in a manner maximizing the Net Outstanding Underlying Asset Balance as of the date of determination) so long as the aggregate of S&P Limit 1, S&P Limit 2, and S&P Limit 3 is not more than 13.6%.

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"Net Scheduled Periodic Offsetting Transaction Payment" means in respect of an Offset Transaction that comprises: the long component of an Offset Transaction and the related Offsetting Transaction, the difference between premium payments due to the Issuer from the Synthetic Security Counterparty and the Scheduled Periodic Offsetting Transaction Payments due to the Offsetting Transaction Counterparty from the Issuer pursuant to the terms of the Offsetting Transaction.

"PIK Bond" means any Underlying Asset that pursuant to the terms of the related Underlying Instruments (a) permits the payment of interest thereon (with respect to such payments due on or after the date on which the security is purchased by the Issuer) to be deferred or capitalized as additional principal thereof or (b) issues identical (except principal and term) securities in place of payments of interest in cash.

"Principal/Notional Balance" means as of any date of determination, with respect to any Asset-Backed Security, the outstanding principal balance of such Asset-Backed Security (excluding any capitalized interest and any negative amortization amounts), and, with respect to each Synthetic Security or a related Reference Obligation, in each case, the Reference Obligation Notional Amount (as defined in the Confirmation) of such Synthetic Security. For the avoidance of doubt, (i) the Reference Obligation Notional Amount shall be a part of the "Principal/Notional Balance" and (ii) no Offset Transactions will be included in the calculation of "Principal/Notional Balance".

"Principal Only Security" means any Asset-Backed Security that does not provide for the payment of rated interest in periodic installments on or prior to the date three Business Days prior to the Stated Maturity of the Notes or provides that all payments of interest will be deferred until the final maturity date thereof.

"Principal Proceeds" means, with respect to any Due Period, the sum (without duplication) of:

(a) all payments of principal on the Underlying Assets and Eligible Investments (excluding any amount representing the accreted portion of a discount from the face amount of an Eligible Investment) received in cash by the Issuer during such Due Period including prepayments or mandatory sinking fund payments, or payments in respect of optional redemptions, exchange offers, tender offers, recoveries on Defaulted Securities and Written Down Securities (other than Uninvested Proceeds and payments of principal of Eligible Investments acquired with Interest Proceeds), including the proceeds of a sale of any Equity Security, the proceeds received from any special purpose subsidiary of the Issuer holding an Equity Security, and any amounts received as a result of optional redemptions, exchange offers or tender offers for any Equity Security received in cash by the Issuer during such Due Period but excluding any accreted portion of a discount from the face amount of an Eligible Investment;

(b) all payments of principal of Eligible Investments purchased with amounts from the Principal Collection Account received in cash by the Issuer during such Due Period;

(c) all amendment, waiver, late payment fees, restructuring and other fees and commissions, collected during the related Due Period in respect of Defaulted Securities and Written Down Securities;

(d) all payments of interest received in respect of Defaulted Securities up to an amount equal to the Principal/Notional Balance of such security at the time it became a Defaulted Asset;

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(e) any Writedown Reimbursement Payment Amount,

(f) any proceeds to the Issuer resulting from the termination and liquidation of an Interest Rate Swap Agreement, to the extent such proceeds exceed the cost of entering into a replacement Interest Rate Swap Agreement or additional Interest Rate Swap Agreements in accordance with the requirements set forth in the Indenture;

(g) any Principal Shortfall Reimbursement Payment Amount,

(h) upfront payment or any termination payments received with respect to early termination of a Synthetic Security received from the related Synthetic Security Counterparty;

(i) all amounts transferred from the Synthetic Security Collateral Account to the Principal Collection Account as described below under "Security for the Notes—The Accounts—Synthetic Security Collateral Account";

(j) all payments received in cash by the Issuer during such Due Period that represent call, prepayment or redemption premiums;

(k) all payments of interest received to the extent that they represent accrued interest purchased with Principal Proceeds;

(l) all yield maintenance payments received in cash by the Issuer during such Due Period;

(m) any proceeds from the issuance and sale of the Notes and Preference Shares that are not applied to the acquisition of Underlying Assets prior to the Determination Date preceding the September 2007 Distribution Date, including amounts on deposit in the Uninvested Proceeds Account, and not deposited into the Expense Account on the Closing Date;

(n) any proceeds from the liquidation of Underlying Assets received in cash by the Issuer (excluding (1) all accrued interest received in cash by the Issuer and (2) the Disposition Proceeds);

(o) any Disposition Proceeds on deposit in the Disposition Proceeds Account or Principal Collection Account;

(p) any payment of capitalized interest on any Underlying Assets;

(q) any payment of accrued interest paid for with principal proceeds;

(r) any Net Scheduled Periodic Offsetting Transaction Payments received by the Issuer with respect to Offset Transactions; and

(s) all other payments received in connection with the Underlying Assets and Eligible Investments that are not included in Interest Proceeds; *provided*, that in no event shall Principal Proceeds include the Excepted Property.

minus

the sum, of (a) any initial payments made by the Issuer upon its entry into a Offsetting Transaction and (b) any termination payments payable by the Issuer in respect of the termination of an Offsetting Transaction where the related Offset Transaction is not terminated.

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"Pure Private Asset-Backed Security" means any security that was not (i) issued pursuant to an effective registration statement under the Securities Act or (ii) a privately placed security that is eligible for resale under Rule 144A or Regulation S under the Securities Act.

"Qualifying Foreign Obligor" means a corporation, partnership, trust or other entity organized or incorporated under the laws of an Eligible Country.

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

"Rating Condition" means, with respect to any action taken or to be taken or any determination made or to be made under the Indenture, a condition that is satisfied when each Rating Agency has confirmed in writing to the Issuer, the Trustee and the Collateral Manager prior to such action or determination that such action or determination will not result in the withdrawal, reduction or other adverse action with respect to any then-current rating (including any shadow, private or confidential rating) of any Class of Notes.

"Scheduled Periodic Offsetting Transaction Payment" means, with respect any Offsetting Transaction, the fixed amounts scheduled to be paid by the Offsetting Transaction Counterparty to the Issuer under such Offsetting Transaction, but excluding any termination payment in respect of such Offsetting Transaction.

"Servicer" means, with respect to any issue of Asset-Backed 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 Asset-Backed Securities are made.

"Special-Majority-in-Interest of Preference Shareholders" means, at any time, Preference Shareholders whose aggregate Voting Percentages at such time exceed 66 2/3% of all Preference Shareholders' Voting Percentages at such time.

"Step Down Bond" means a security which by the terms of the related Underlying Instrument provides for a decrease, in the case of a fixed rate security, in the *per annum* interest rate on such security or, in the case of a floating rate security, in the spread over the applicable index or benchmark rate, solely as a function of the passage of time; *provided* that a Step Down Bond shall not include any such security providing for payment of a constant rate of interest at all times after the date of acquisition by the Issuer. In calculating the Weighted Average Spread and the Weighted Average Coupon by reference to the spread (in the case of a floating rate Step Down Bond) or coupon (in the case of a fixed rate Step Down Bond) of a Step Down Bond, the spread or coupon on any date shall be deemed to be the lowest spread or coupon, respectively, scheduled to apply to such Step Down Bond on or after such date.

"Step Up Bond" means a security which by the terms of the related Underlying Instrument provides for an increase, in the case of a fixed rate security, in the *per annum* interest rate on such security or, in the case of a floating rate security, in the spread over the applicable index or benchmark rate, solely as a function of the passage of time; *provided* that a Step Up Bond shall not include any such security providing for payment of a constant rate of interest at all times after the date of acquisition by the Issuer. In calculating the Weighted Average Spread and the Weighted Average Coupon by reference to the spread (in the case of a floating Step Up Bond) or coupon (in the case of a fixed rate Step Up Bond) of a Step Up Bond, the spread or coupon on any date shall be deemed to be the spread or coupon stated to be payable in cash or in effect on such date.

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"Underlying Instruments" means the indenture or other agreement pursuant to which an Underlying Asset, 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 Underlying Asset, Eligible Investment or Equity Security or of which holders of such Underlying Asset, Eligible Investment or Equity Security are the beneficiaries.

"Uninvested Proceeds" means, at any time on or prior to the Determination Date prior to the September 2007 Distribution Date, the net proceeds received by the Issuer on the Closing Date from the initial issuance of the Notes and Preference Shares and any principal collections on the Underlying Assets received on or prior to the Closing Date, to the extent such proceeds have not theretofore been invested in Underlying Assets or deposited in the Expense Account.

"Voting Percentage" of a Preference Shareholder at any time means the ratio (expressed as a percentage) of such Preference Shareholder's Preference Shares outstanding to the aggregate outstanding Preference Shares of all Preference Shareholders at such time.

"Written Down Security" means, as of any date of determination, any Underlying Asset that is part of an issue as to which the aggregate par amount of the entire class and all other securities secured by the same pool of collateral that rank senior in priority of payment to such class exceeds the aggregate par amount (including reserved interest or other amounts available for overcollateralization) of all collateral securing such issue (excluding defaulted collateral).

The Coverage Tests

The Coverage Tests applicable to a Class of Notes will be used primarily to determine whether and to what extent Interest Proceeds may be used to pay interest on and dividends in respect of Classes of Notes Subordinate to such Class and the Preference Shares and certain other expenses. The **"Coverage Tests"** include the Class A/B Coverage Tests, the Class C Coverage Tests and the Class D Coverage Tests.

In the event that either Class A/B Coverage Test is not satisfied on any Distribution Date, funds that would otherwise be used to pay interest on the Class C Notes, the Class D Notes and the Class E Notes and dividends on the Preference Shares and certain other expenses must instead be used to pay principal of, *first*, the Class A Notes and *second*, the Class B Notes, to the extent necessary to cause each Class A/B Coverage Test to be satisfied.

In the event that any Class C Coverage Test is not satisfied on any Distribution Date, funds that would otherwise be used to pay interest on the Class D Notes and the Class E Notes and dividends on the Preference Shares and certain other expenses must instead be used to pay principal of, *first*, the Class A Notes, *second*, the Class B Notes and *third*, the Class C Notes, to the extent necessary to cause each Class C Coverage Test to be satisfied.

In the event that any Class D Coverage Test is not satisfied on any Distribution Date, funds that would otherwise be used to pay interest on the Class E Notes and dividends on the Preference Shares and certain other expenses must instead be used to pay principal of, *first*, the Class A Notes, *second*, the Class B Notes, *third*, the Class C Notes and *fourth*, the Class D Notes, to the extent necessary to cause each Class D Coverage Test to be satisfied.

The **"Class A/B Coverage Tests"** will consist of the Class A/B Overcollateralization Test and the Class A/B Interest Coverage Test. The **"Class C Coverage Tests"** will consist of the Class C

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Overcollateralization Test and the Class C Interest Coverage Test. The **"Class D Coverage Tests"** will consist of the Class D Overcollateralization Test and the Class D Interest Coverage Test.

The Overcollateralization Tests

The Class A/B Overcollateralization Test:

The **"Class A/B Overcollateralization Ratio"** is, as of any Measurement Date, the number (expressed as a percentage) calculated by *dividing* (a) the Net Outstanding Underlying Asset Balance on such Measurement Date *by* (b) the aggregate outstanding principal amount of the Class A Notes *plus* the aggregate outstanding principal amount of the Class B Notes.

The **"Class A/B Overcollateralization Test"** will be satisfied on the Closing Date or a Measurement Date on which any Class A Note or Class B Note remains outstanding if the Class A/B Overcollateralization Ratio on such Measurement Date is equal to or greater than 117.37%.

The Class C Overcollateralization Test:

The **"Class C Overcollateralization Ratio"** is, as of any Measurement Date, the number (expressed as a percentage) calculated by *dividing* (a) the Net Outstanding Underlying Asset Balance on such Measurement Date *by* (b) the aggregate outstanding principal amount of the Class A Notes *plus* the aggregate outstanding principal amount of the Class B Notes *plus* the aggregate outstanding principal amount of the Class C Notes, *plus* any outstanding Class C Deferred Interest.

The **"Class C Overcollateralization Test"** will be satisfied on the Closing Date or a Measurement Date on which any Class A Note, Class B Note or Class C Note remains outstanding if the Class C Overcollateralization Ratio on such Measurement Date is equal to or greater than 109.99%.

The Class D Overcollateralization Test:

The **"Class D Overcollateralization Ratio"** is, as of any Measurement Date, the number (expressed as a percentage) calculated by *dividing* (a) the Net Outstanding Underlying Asset Balance on such Measurement Date *by* (b) the aggregate outstanding principal amount of the Class A Notes *plus* the aggregate outstanding principal amount of the Class B Notes *plus* the aggregate outstanding principal amount of the Class C Notes *plus* the aggregate principal amount of the Class D Notes, *plus* any outstanding Class C Deferred Interest and *plus* any outstanding Class D Deferred Interest.

The **"Class D Overcollateralization Test"** will be satisfied on the Closing Date or a Measurement Date on which any Class A Note, Class B Note, Class C Note or Class D Note remains outstanding if the Class D Overcollateralization Ratio on such Measurement Date is equal to or greater than 104.86%.

The Class E Diversion Test

The Class E Diversion Test determines whether Interest Proceeds may be applied, in accordance with the Priority of Payments, to make payments that are subordinate to payments on the Class E Notes. If the Class E Diversion Test is not passing on a Measurement Date then on the immediately following Distribution Date, Interest Proceeds, to the extent available in accordance with the Priority of Payments, will be applied to make principal payments on the Class E Notes.

The **"Class E Diversion Ratio"** is, as of any Measurement Date, the number (expressed as a percentage) calculated by *dividing* (a) the Net Outstanding Underlying Asset Balance on such

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Measurement Date *by* (b) the aggregate outstanding principal amount of the Class A Notes *plus* the aggregate outstanding principal amount of the Class B Notes *plus* the aggregate outstanding principal amount of the Class C Notes *plus* the aggregate outstanding principal amount of the Class D Notes *plus* the aggregate outstanding principal amount of the Class E Notes, *plus* any outstanding Class C Deferred Interest *plus* any outstanding Class D Deferred Interest and *plus* any outstanding Class E Deferred Interest.

The **"Class E Diversion Test"** will be satisfied on the Closing Date or a Measurement Date on which any Class A Note, Class B Note, Class C Note, Class D Note or Class E Note remains outstanding if the Class E Diversion Ratio on such Measurement Date is equal to or greater than 103.56%.

The Class A-1 OC Ratio

The Class A-1 OC Ratio will be used only to determine whether an Event of Default has occurred under the Notes due to the decline in the Class A-1 OC Ratio below 100%.

"Class A-1 OC Ratio" means the number, expressed as a percentage, calculated by dividing (a) the Net Outstanding Underlying Asset Balance by (b) the Aggregate Outstanding Amount of the Class A-1 Notes.

The Interest Coverage Tests

The Interest Coverage Ratio with respect to the Class A Notes and Class B Notes (the **"Class A/B Interest Coverage Ratio"**), the Class C Notes (the **"Class C Interest Coverage Ratio"**) and the Class D Notes (the **"Class D Interest Coverage Ratio"**) as of any Measurement Date will be calculated by *dividing*:

(a) (i) the sum of (A) the scheduled interest payments due (regardless of whether the due date for any such interest payment has yet occurred) in the Due Period in which such Measurement Date occurs on (1) the Underlying Assets and (2) any Eligible Investments held in the Collection Accounts (whether such Eligible Investments were purchased with Interest Proceeds or Principal Proceeds), (B) any fees actually received by the Issuer during such Due Period that constitute Interest Proceeds and (C) any earnings on Eligible Investments in the Synthetic Security Collateral Account, constituting Interest Proceeds and received after the end of the related Collection Period and immediately prior to the related Payment Date and (D) any amounts scheduled to be paid to the Issuer by an Interest Rate Swap Counterparty under an Interest Rate Swap Agreement on the Distribution Date relating to such Due Period, *minus* (ii) the sum of the Interest Proceeds scheduled to be paid pursuant to clauses (1) through (4) of the Interest Proceeds Priority of Payments on the immediately succeeding Distribution Date; *by*

(b) an amount equal to (i) in the case of the Class A/B Interest Coverage Ratio, the scheduled interest on the Class A Notes and Class B Notes (including Defaulted Interest thereon and accrued interest on such Defaulted Interest, if any) payable on the immediately succeeding Distribution Date, (ii) in the case of the Class C Interest Coverage Ratio, the scheduled interest on the Class A Notes, Class B Notes and Class C Notes (including Defaulted Interest and interest thereon, interest on Class C Deferred Interest, if any, but excluding any Class C Deferred Interest) payable on the immediately succeeding Distribution Date or (iii) in the case of the Class D Interest Coverage Ratio, the scheduled interest on the Class A Notes, Class B Notes, Class C Notes and Class D Notes (including Defaulted Interest and interest thereon, interest on Class C Deferred

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Interest and interest on Class D Deferred Interest, if any, but excluding any Class C Deferred Interest and Class D Deferred Interest) payable on the immediately succeeding Distribution Date (or, if such Measurement Date coincides with a Distribution Date, on such Distribution Date).

For the purpose of determining compliance with any Interest Coverage Test, there will be excluded all scheduled payments of interest on or principal of Defaulted Securities and any payment, including any amount payable to the Issuer by an Interest Rate Swap Counterparty, that will not be made in cash or received when due, as determined by the Collateral Manager in its reasonable business judgment. For purposes of calculating any Interest Coverage Ratio, (i) the expected interest income on floating rate Underlying Assets and Eligible Investments and under any Interest Rate Swap Agreement and the expected interest payable on the Notes will be calculated using the interest rates applicable thereto on the applicable Measurement Date and (ii) accrued original issue discount on Eligible Investments will be deemed to be a scheduled interest payment thereon due on the date such original issue discount is scheduled to be paid.

The **"Class A/B Interest Coverage Test"** will be satisfied on the Closing Date or a Measurement Date on which any Class A Note or Class B Note remains outstanding if the Class A/B Interest Coverage Ratio as of such Measurement Date is equal to or greater than 107.00%; *provided*, that the Class A/B Interest Coverage Test will be deemed to be satisfied on the First Distribution Date.

The **"Class C Interest Coverage Test"** will be satisfied on the Closing Date or a Measurement Date on which any Class A Note, Class B Note or Class C Note remains outstanding if the Class C Interest Coverage Ratio as of such Measurement Date is equal to or greater than 103.00%; *provided*, that the Class C Interest Coverage Test will be deemed to be satisfied on the First Distribution Date.

The **"Class D Interest Coverage Test"** will be satisfied on the Closing Date or a Measurement Date on which any Class A Note, Class B Note, Class C Note or Class D Note remains outstanding if the Class D Interest Coverage Ratio as of such Measurement Date is equal to or greater than 100.00%; *provided*, that the Class D Interest Coverage Test will be deemed to be satisfied on the First Distribution Date.

Mandatory Redemption

In the event that any of the Overcollateralization Tests (not including, for the avoidance of doubt, the Class E Diversion Test) or the Interest Coverage Tests applicable to a Class of Notes is not satisfied on a Determination Date related to any Distribution Date, then Interest Proceeds that would otherwise be used to make payments in respect of interest on any Class of Notes Subordinate to that Class will be used instead to redeem, *first*, each Class (if any) of Notes Senior to such Class of Notes (sequentially in direct order of seniority) and, *second*, such Class of Notes, to the extent necessary to cause each Coverage Test to be satisfied.

In addition, each Class of Notes will be subject to mandatory redemption from Principal Proceeds available after payment of certain other amounts in accordance with the Priority of Payments on each Distribution Date. Any such redemption from Interest Proceeds or Principal Proceeds will be applied to each outstanding Class of Notes sequentially in direct order of seniority and will otherwise be effected as described above under "—Priority of Payments."

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Optional Redemption

Subject to certain conditions described herein, the Issuer may redeem the Notes (such redemption, an **"Optional Redemption"**), in whole but not in part, at the direction of the holders of at least sixty-six and two-thirds percent (66 2/3%) of the Preference Shareholders at the applicable Redemption Price therefor on any Distribution Date, *provided* that no such Optional Redemption may be effected prior to the March 2010 Distribution Date. Any such Optional Redemption may only be effected on a Distribution Date at the applicable Redemption Price and only from the Disposition Proceeds of all Collateral including the Eligible Investments credited to the Accounts (other than that in the Interest Rate Swap Counterparty Collateral Account and the Synthetic Security Issuer Account) on such Distribution Date. No Optional Redemption may be effected, however, unless (i) all such Disposition Proceeds are used, in whole or in part, to make such an Optional Redemption and (ii) such Disposition Proceeds (including the payment in full to the Issuer of all amounts that can be withdrawn under the Investment Agreement) are at least equal to the Redemption Amount.

Any Optional Redemption is subject to (i) the sale of the Collateral (other than the cash and Eligible Investments referred to in clause (b) of this sentence) arranged by the Collateral Manager, on the proposed Redemption Date, for a sale price in cash at least equal to (a) the Redemption Amount *minus* (b) the balance of the cash and Eligible Investments in the Accounts (other than that in the Interest Rate Swap Counterparty Collateral Account and the Synthetic Security Issuer Account) and (ii) the receipt by the Trustee from the Collateral Manager of certification from the Collateral Manager that the sum so received from the purchaser satisfies clause (i). Upon receipt by the Trustee of the certification referred to in the preceding sentence, the Issuer shall take all actions necessary to sell, assign and transfer the Collateral to the prospective purchaser upon payment in immediately available funds of the sum referred to above and the Trustee shall release the Collateral from the lien of the Indenture. The Trustee shall deposit such payment into the Collection Accounts. The Collateral Manager or an Affiliate thereof may be the purchaser of the Collateral in accordance with the procedures set forth in the Management Agreement.

Auction Call Redemption

In accordance with the procedures set forth in **Schedule A** to this Offering Circular (the **"Auction Procedures"**), the Auction Agent shall, at the expense of the Issuer, conduct an auction (an **"Auction"**) of the Underlying Assets if, prior to the Distribution Date occurring in June 2013, the Notes have not been redeemed in full and the holders of the Preference Shares have not directed an Optional Redemption of the Notes. The Auction will be conducted not later than seven Business Days prior to (a) the Distribution Date occurring in June 2013 (the **"First Auction Call Date"**) and (b) if the Notes are not redeemed in full on such Distribution Date, each subsequent Distribution Date occurring on or closest to any six-month anniversary of the First Auction Call Date (each, a **"Subsequent Auction Call Date"** and, together with the First Auction Call Date, each an **"Auction Date"**), until the Notes have been redeemed in full. Any of the Collateral Manager (if it is not the Auction Agent), the Initial Purchaser, the Preference Shareholder or the Trustee or any of their respective affiliates may, but will not be required to, bid at the Auction.

The Notes will be redeemable at the applicable Redemption Price and Preference Shares will be redeemable at a price equal to not less than the Minimum Preference Share Redemption Amount. The Notes and Preference Shares will be redeemable from the Disposition Proceeds of all Collateral including Eligible Investments credited to the Accounts (other than that in the Interest Rate Swap Counterparty Collateral Account and the Synthetic Security Issuer Account); *provided* that funds under clauses (a) and (b) are sufficient to pay in full (i) the Redemption Amount and (ii) the Minimum Preference Share Redemption Amount. The **"Minimum Preference Share Redemption Amount"** shall equal (i) the aggregate liquidation preference of the Preference Shares *minus* (ii) the aggregate amount of all cash

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distributions on the Preference Shares (whether in respect of dividends or redemption payments) made to the Preference Share Paying Agent for distribution to the Preference Shareholders prior to the relevant Auction Date. If an Auction Call Redemption is not completed on any Auction Date, the Auction Agent shall carry out an Auction in accordance with the Auction Procedures on each subsequent Auction Date until an Auction Call Redemption is completed successfully (the **"Auction Call Redemption Date"**).

Pursuant to the Management Agreement, the Issuer has designated the Collateral Manager (in such capacity, the **"Auction Agent"**) as the Issuer's agent in connection with the sale of the Collateral in connection with any Auction Call Redemption or if the Collateral Manager indicates its desire to bid on the Underlying Assets, the Collateral Manager shall resign as Auction Agent and the Auction Agent for that Auction may be the Initial Purchaser, an Affiliate of the Initial Purchaser or another unaffiliated third party as successor Auction Agent.

The Issuer shall Dispose of and transfer the Underlying Assets to the highest bidder identified by the Auction Agent (or to the highest bidder for each subpool) at the Auction and the Trustee shall release the Collateral from the lien of the Indenture, as long as:

(a) the Auction has been conducted in accordance with the Auction Procedures, as evidenced by a certification of the Auction Agent;

(b) the Auction Agent has received bids for the Underlying Assets (or for each of the related subpools) from at least two prospective purchasers (including the winning bidder) identified on a list of Qualified Bidders provided by the Auction Agent to the Trustee in accordance with the Indenture; provided that each Qualified Bidder for the Synthetic Securities shall have been approved by the relevant Synthetic Security Counterparty; provided, further, that if the Auction Agent has not received bids for one or more Synthetic Securities, the requirements of this clause may be satisfied by determining required payments from or to the Issuer relating to the termination of such Synthetic Securities and including such aggregate amount in the calculation of the Redemption Amount;

(c) the Auction Agent certifies that the highest bids would result in the Disposition of the Underlying Assets (or the related subpools) for a purchase price (paid in cash) that, together with the balance of all Eligible Investments (including the payment in full to the Issuer of all amounts that can be withdrawn under the Investment Agreement) and cash held by the Issuer (other than Eligible Investments and cash in the Interest Rate Swap Counterparty Collateral Account and the Synthetic Security Issuer Account), will be at least equal to the sum of (i) the Redemption Amount and (ii) the Minimum Preference Share Redemption Amount; and

(d) the highest bidder (or the highest bidder for each subpool) enters into a written agreement with the Issuer (which the Issuer will execute if the conditions set forth above and in the Indenture are satisfied (such execution to constitute certification by the Issuer that such conditions have been satisfied)) that obligates the highest bidder (or the highest bidder for each subpool) to acquire all of the Underlying Assets (or the relevant subpool) and provides for payment in full (in cash) of the price for any Underlying Asset that is not a Synthetic Security and any amount due to the Issuer as a result of the assignment of the Synthetic Securities to the Trustee on or prior to the sixth Business Day following the relevant Auction Date.

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Provided that all of the conditions set forth in clauses (a) through (d) of the preceding paragraph have been met, the Issuer will Dispose of and transfer the Underlying Assets (or the related subpool), without representation, warranty or recourse, to such highest bidder identified by the Auction Agent (or the highest bidder for each subpool, as the case may be) in accordance with and upon completion of the Auction Procedures. The Issuer will deposit the purchase price for the Underlying Assets in the Collection Accounts and, on the Distribution Date immediately following the relevant Auction Date, (i) pay the Redemption Amount and (ii) make a payment to the Preference Share Paying Agent (that shall not be less than the Minimum Preference Share Redemption Amount) for distribution to the holder of the Preference Shares in an amount equal to the remainder of such Disposition Proceeds and cash in the Collection Accounts (such redemption, the **"Auction Call Redemption"**). Notwithstanding the foregoing, the holders of 100% of the aggregate outstanding principal amount of a Class of Notes may elect, in connection with any Auction Call Redemption, to receive less than 100% of the Redemption Price that would otherwise be payable to holders of such Class (and the Redemption Price shall be reduced by such amount).

If any of the foregoing conditions is not met with respect to any Auction or if the highest bidder (or the highest bidder for any subpool, as the case may be) fails to pay the purchase price before the sixth Business Day following the relevant Auction Date, (a) the Auction Call Redemption will not occur on the Distribution Date following the relevant Auction Date, (b) the Auction Agent will notify the Trustee and the Trustee will give notice of the withdrawal, (c) subject to clause (d) below, the Trustee on behalf of the Issuer will decline to consummate such sale and the Auction Agent will not solicit any further bids or otherwise negotiate any further Disposition of Underlying Assets in relation to such Auction and (d) unless the Notes are redeemed in full prior to the next succeeding Auction Date, the Auction Agent will conduct another Auction on the next succeeding Auction Date.

The Notes may not be redeemed pursuant to an Auction Call Redemption unless, at least four Business Days before the scheduled Redemption Date, the Collateral Manager shall have furnished to the Trustee and any Interest Rate Swap Counterparty evidence, in form satisfactory to the Trustee, that the Issuer has entered into a binding agreement or agreements with (or guaranteed by) a financial institution or institutions (whose long-term unsecured debt obligations (other than such obligations whose rating is based on the credit of a person other than such institution) have a credit rating from each Rating Agency at least equal to the highest rating of the Notes then outstanding or whose short-term unsecured debt obligations have a credit rating of at least "A-1" by Standard & Poor's and (if rated by Fitch) at least "F1" by Fitch and provided that in case such financial institution is the Collateral Manager no credit rating is required) to sell, not later than the Business Day immediately preceding the scheduled Redemption Date, in immediately available funds, all or part of the Underlying Assets at a sale price (including in such price an amount equal to any accrued interest) which, together with the balance of the cash and Eligible Investments in the Accounts (other than that in the Interest Rate Swap Counterparty Collateral Account and the Synthetic Security Issuer Account), is at least equal to (i) the Redemption Amount and (ii) the Minimum Preference Share Redemption Amount.

Clean-Up Call Redemption

At the direction of the Collateral Manager, the Notes will be subject to redemption by the Issuer, in whole but not in part (a **"Clean-Up Call Redemption"**), at the applicable Redemption Price on any Distribution Date which occurs on or after the Distribution Date on which the aggregate outstanding principal amount of the Notes is less than or equal to 10.00% of the original aggregate outstanding principal amount of the Notes as of the Closing Date. Any such redemption may only be effected on a Distribution Date and only from the Disposition Proceeds of all Collateral including the Eligible

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investments credited to the Accounts (other than that in the Synthetic Security Issuer Account) and all Offsetting Transactions.

Any Clean-Up Call Redemption is subject to (a) the purchase of the Collateral (other than the cash and Eligible Investments referred to in clause (ii) below) by the Collateral Manager or any of its Affiliates from the Issuer, on the scheduled Redemption Date, for a purchase price in cash at least equal to (i) the Redemption Amount *minus* (ii) the balance of the cash and Eligible Investments in the Accounts (other than that in the Synthetic Security Issuer Account, but including the payment in full to the Issuer of all amounts that can be withdrawn under the Investment Agreement) and (b) the receipt by the Trustee, prior to such purchase, of the Collateral Manager's certification that the sum so received satisfies clause (a). Upon receipt by the Trustee of the Collateral Manager's certification, the Trustee and the Issuer shall take all actions necessary to sell, assign and transfer the Collateral to the Collateral Manager or any of its Affiliates upon payment in immediately available funds of the purchase price. The Trustee shall deposit such payment into the Collection Accounts and apply the funds therein in accordance with the Priority of Payments on such Redemption Date.

Tax Redemption

The Notes will be redeemable (such redemption, a **"Tax Redemption"**), in whole but not in part, by the Issuer at the direction of a Majority-in-Interest of Preference Shareholders or, so long as the Class A-1 Notes are Outstanding, of the Controlling Class; *provided that*, the Controlling Class may only direct a Tax Redemption in the event that, as a result of the relevant Tax Event, on a previous Payment Date one or more of the Class A-1a Notes, Class A-1b Notes, Class A-2 Notes or Class B Notes did not receive the amount that it otherwise would have received under the Priority of Payments in the absence of such Tax Event. Any such redemption may only be effected on a Distribution Date at the applicable Redemption Price and only from the Disposition Proceeds of all Collateral including the Eligible Investments credited to the Accounts (other than that in the Interest Rate Swap Counterparty Collateral Account and the Synthetic Security Issuer Account). No Tax Redemption may be effected, however, unless (i) all such Disposition Proceeds are used, in whole or in part, to make such Tax Redemption, (ii) such Disposition Proceeds (including the payment in full to the Issuer of all amounts that can be withdrawn under the Investment Agreement) are sufficient to pay in full the Redemption Amount, (iii) a Tax Event shall have occurred and (iv) the Tax Materiality Condition is satisfied.

A **"Tax Event"** will occur, whether or not as a result of any change in law or interpretation, if (a) any obligor is required to deduct or withhold from any payment under any Underlying Asset to the Issuer for or on account of any tax for whatever reason, whether or not as a result of any change in law or interpretation, and such obligor 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 occurred, (b) the Issuer or an Interest Rate Swap Counterparty is required to deduct or withhold from any payment under any Interest Rate Swap Agreement for or on account of any tax and the Issuer is obligated to pay gross-up amounts to the relevant Interest Rate Swap Counterparty, or the relevant Interest Rate Swap Counterparty is not obligated to pay the Issuer such additional amount as is necessary to ensure that the net amount actually received by the Issuer (free and clear of taxes, whether assessed against such obligor or the Issuer) will equal the full amount that the Issuer would have received had no such deduction or withholding occurred or (c) any net income, profits or similar tax is imposed on the Issuer. The **"Tax Materiality Condition"** will be satisfied during any 12-month period if any combination of Tax Events results, in aggregate, in a payment, charge or tax burden to the Issuer in excess of U.S.$1,000,000.

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Any Tax Redemption is subject to (a) the Disposition of the Collateral (other than the cash and Eligible Investments referred to in clause (ii) below) arranged by the Collateral Manager, on the scheduled Redemption Date, for a sale price in cash at least equal to (i) the Redemption Amount *minus* (ii) the balance of Eligible Investments and cash in the Accounts (other than that in the Interest Rate Swap Counterparty Collateral Account and the Synthetic Security Issuer Account), and (b) the receipt by the Trustee of certification from the Collateral Manager that the sum so received from the purchaser satisfies clause (a). Upon receipt by the Trustee of the Collateral Manager's certification, the Issuer shall take all actions necessary to sell, assign and transfer the Collateral to the prospective purchaser upon payment in immediately available funds of the sum referred to above and the Trustee shall release the Collateral from the lien of the Indenture. The Collateral Manager or an Affiliate of the Collateral Manager may purchase the Collateral. The Trustee shall deposit such payment into the Collection Accounts.

Redemption Price and Redemption Amount

The amount payable in connection with an Auction Call Redemption, Optional Redemption, Clean-Up Call Redemption or Tax Redemption of any Note will be an amount equal to (a) the aggregate outstanding principal amount of such Note being redeemed, *plus* (b) the accrued and unpaid interest thereon (including Defaulted Interest and Deferred Interest and interest thereon, if any) (the **"Redemption Price"**).

"Redemption Amount" means, with respect to an Auction Call Redemption, Optional Redemption, Clean-Up Call Redemption or Tax Redemption, an amount equal to the sum of (i) the Redemption Price in respect of all Notes and (ii) all unpaid administrative expenses (including indemnities) and fees then due and payable of the Issuers, including any termination payments payable by the Issuer under any Interest Rate Swap Agreement and the Synthetic Securities, the Management Fee due to the Collateral Manager and, with respect to an Auction Call Redemption, fees and expenses of the Auction Agent.

Redemption Procedures

Notice of any Auction Call Redemption, Optional Redemption, Clean-Up Call Redemption or Tax Redemption will be given by first-class mail, postage prepaid, mailed not less than ten days and not more than 30 days prior to the date scheduled for redemption (with respect to such Auction Call Redemption, Optional Redemption, Clean-Up Call Redemption or Tax Redemption, the **"Redemption Date"**), to DTC, to the registered holders of the Regulation S Global Notes by delivery of the relevant notice to Euroclear and Clearstream for communication by them to entitled accountholders and to each holder of Preference Shares at such holder's address in the Note Register or, in the case of the Preference Shares, the register of Preference Shares maintained under the Preference Share Paying Agency Agreement (the **"Share Register"**), any Interest Rate Swap Counterparty, each Synthetic Security Counterparty, the Initial Investment Agreement Provider and to each Rating Agency. The Trustee will also give notice thereof to the Company Announcements Office of the Irish Stock Exchange. Notes must be surrendered at the offices of a Paying Agent under the Indenture in order to receive the applicable Redemption Price, unless the holder provides (a) an undertaking to surrender such Note thereafter and (b) in the case of a holder that is not a Qualified Institutional Buyer, such security or indemnity as may be required by the Issuers or the Trustee.

Any notice of redemption may be withdrawn by the Issuer up to the fifth Business Day prior to the scheduled Redemption Date by written notice to the Trustee, any Interest Rate Swap Counterparty, each Synthetic Security Counterparty, the Initial Investment Agreement Provider and the Collateral Manager; *provided* that such notice is effective only if the Disposition Proceeds and the Collateral Manager certificates (if any) required to be delivered to the Trustee with respect to an Auction Call Redemption,

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Optional Redemption, Tax Redemption or Clean-Up Call Redemption have not been delivered to the Trustee by such date in form satisfactory to the Trustee. Notice of any such withdrawal shall be given by the Trustee to DTC, to the registered holders of the Regulation S Global Notes by delivery of the relevant notice to Euroclear and Clearstream for communication by them to entitled accountholders and to each holder of Preference Shares at such holder's address in the Share Register.

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.

Form, Denomination, Registration and Transfer

General

(1) The Notes which will be offered by the Initial Purchaser to persons that are not U.S. Persons and outside the United States will initially be represented by one or more Temporary Regulation S Global Notes in definitive, fully registered form, without interest coupons attached, deposited with the Trustee as custodian for, and registered in the name of, DTC or its nominee, initially for the accounts of Euroclear and Clearstream. On the 40th day after which all of the Notes of any Class have been sold to investors other than the Initial Purchaser or its Affiliates, and subject to the receipt by the Trustee of a certificate in the form provided by the Indenture from the person holding such interest, a beneficial interest in a Class of Temporary Regulation S Global Notes may be exchanged for an interest in a Permanent Regulation S Global Note of such Class in fully registered form without coupons in an amount equal to the aggregate principal amount of such interest in the Temporary Regulation S Global Note. During the Distribution Compliance Period, beneficial interests in a Regulation S Global Note may be held only through Euroclear and Clearstream. By acquisition of a beneficial interest in a Regulation S Global Note, any purchaser thereof will be deemed to represent that it is not a U.S. Person and that, if in the future it decides to transfer such beneficial interest, it will transfer such interest only (x) to a non-U.S. Person in an offshore transaction in accordance with Regulation S, or (y) to a person who takes delivery in the form of a Restricted Note. Beneficial interests in each Regulation S Note will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants, including Euroclear and Clearstream.

(2) The Notes which will be offered by the Initial Purchaser in reliance upon an exemption from the registration requirements of the Securities Act (a) under Section 4(2) of the Securities Act or (b) pursuant to Rule 144A will be represented by one or more Restricted Global Notes in fully registered form, without interest coupons attached, deposited with the Trustee as custodian for, and registered in the name of, DTC or its nominee. By acquisition of a beneficial interest in a Restricted Note, any purchaser thereof will be deemed to represent that it is a U.S. Person and that, if in the future it decides to transfer such beneficial interest, it will transfer such interest only (a) to a Qualified Institutional Buyer that is a Qualified Purchaser, or (b) to a non-U.S. Person in an offshore transaction in accordance with Regulation S. Restricted Notes may not be transferred to non-U.S. Persons except in the form of a Regulation S Note. Interests in Restricted Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants.

(3) The Notes are subject to the restrictions on transfer set forth herein under "Transfer Restrictions."

(4) Owners of beneficial interests in Regulation S Global Notes and Restricted Global Notes will be entitled or required, as the case may be, under certain limited circumstances described below, to

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receive physical delivery of certificated Notes (either a **"Restricted Definitive Note"** or a **"Regulation S Definitive Note"** and collectively, **"Definitive Notes"**) in fully registered, definitive form. No owner of an interest in a Regulation S Global Note will be entitled to receive a Definitive Note (a) until after the expiration of the Distribution Compliance Period and (b) unless (i) for a person other than a distributor (as defined in Regulation S), such person provides certification that the Definitive Note will be owned by a person that is not a U.S. Person (as defined in Regulation S) or (ii) for a person that is a U.S. Person, such person provides certification that any interest in such Definitive Note was purchased in a transaction that did not require registration under the Securities Act and that such person is a Qualified Purchaser. The Notes are not issuable in bearer form.

(5) Pursuant to the Indenture, the Trustee has been appointed and will serve as the registrar of the Notes (the **"Note Registrar"**) and will provide for the registration of the Notes and the registration of transfers of Notes in the register maintained by it (the **"Note Register"**). The Trustee has been appointed as a transfer agent with respect to the Notes (in such capacity, a **"Transfer Agent"**).

(6) The Notes (or interests therein) will be issuable in minimum denominations of U.S.$500,000 and in integral multiples of U.S.$1,000 in excess thereof.

Global Notes

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

(2) Investors may hold their interests in a Regulation S Global Note directly through Euroclear or Clearstream, if they are participants in such systems, or indirectly through organizations which are participants in such systems. After the Distribution Compliance Period (but not earlier), investors may also hold such interests other than through Euroclear or Clearstream. Euroclear and Clearstream will hold interests in Regulation S Global Notes on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositaries, which in turn will hold such interests in such Regulation S Notes in customers' securities accounts in the depositaries' names on the books of DTC. Investors may hold their interests in a Restricted Global Note directly through DTC, if they are participants in such system, or indirectly through organizations which are participants in such system.

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

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

Definitive Notes

Interests in a Regulation S Note or a Restricted Note represented by a Global Note will be exchangeable or transferable, as the case may be, for a Regulation S Note or a Restricted Note, respectively, that is a Definitive Note if (a) DTC notifies the Issuer that it is unwilling or unable to continue as depositary for such Note, (b) DTC ceases to be a "Clearing Agency" registered under the Exchange Act, and a successor depositary is not appointed by the Issuer within 90 days, (c) the transferee of an interest in such Global Note is required by law to take physical delivery of securities in definitive form, (d) any Regulation S Global Note becomes immediately due and payable following an Event of Default under the Indenture, (e) DTC, Euroclear or Clearstream is closed for business for a continuous period of 14 days (other than by reason of holiday), (f) DTC, Euroclear or Clearstream announces an intention permanently to cease business and no alternative clearance system satisfactory to the Issuer is available, (g) as a result of any amendment to, or change in, the laws or regulations of the Cayman Islands or of any authority therein or thereof having power to tax or in the interpretation or administration of such laws or regulations which becomes effective on or after the Closing Date, the Issuer or any Paying Agent is or will be required to make any deduction or withholding from any payment in respect of the Notes which would not be required were the Notes in definitive form or (h) the Issuer so elects by notice to the holders of the Notes, and DTC, Euroclear and/or Clearstream, as the case may be, do not object. Upon the occurrence of any of the events described in the preceding sentence, the Issuer will cause Definitive Notes bearing an appropriate legend (a "**Legend**") regarding restrictions on transfer to be delivered. Upon the transfer, exchange or replacement of Definitive Notes bearing a Legend, or upon specific request for removal of a Legend on a Note, the Issuers shall deliver through the Trustee or any Paying Agent to the holder and the transferee, as applicable, one or more Definitive Notes in certificated form corresponding to the principal amount of Definitive Notes surrendered for transfer, exchange or replacement that bear such Legend, or will refuse to remove such Legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence, which may include an opinion of U.S. counsel, as may reasonably be required by the Issuer that neither the Legend nor the restrictions on transfer set forth therein is required to ensure compliance with the provisions of the Securities Act or the Investment Company Act. Definitive Notes will be exchangeable or transferable for interests in other Definitive Notes as described below.

Transfer and Exchange of Global Notes

(1) Transfer of a Regulation S Note (or any interest therein) to a transferee who takes delivery of such Note (or interest therein) in the form of a Restricted Note (or any interest therein) may be made before or after the end of the Distribution Compliance Period, in accordance with the Applicable Procedures (in the case of Global Notes) and upon receipt by the Trustee, the Issuers and the Note Registrar of a transfer certificate in the form provided in the Indenture to the effect that, among other things, such transfer is being made (a) to a person whom the transferor reasonably believes is a Qualified Institutional Buyer, acquiring such Notes (or any interest therein) for its own account and to whom notice is given that the resale, pledge or other transfer is being made in reliance on the exemption from the

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registration requirements of the Securities Act provided by Rule 144A and a Qualified Purchaser, and (b) in accordance with any applicable securities laws of any state of the United States and any other relevant jurisdiction and from the transferee in the form provided for in the Indenture. An exchange or transfer of a Note represented by a Definitive Note to a transferee who takes delivery of such Note in the form of a Restricted Global Note may be made after the receipt by the Note Registrar or Transfer Agent, as the case may be, of the Definitive Notes to be so exchanged or transferred and upon receipt by the Trustee and the Issuers of a transfer certificate in the form provided in the Indenture.

An owner of a beneficial interest in a Regulation S Global Note may transfer such interest in the form of a beneficial interest in such Regulation S Global Note without the provision of written certification, *provided* that such transfer is not made to a U.S. Person or for the account or benefit of a U.S. Person and is effected, prior to the expiration of the Distribution Compliance Period, through Euroclear or Clearstream or, after the expiration of the Distribution Compliance Period, through a clearing system other than Euroclear or Clearstream, in an offshore transaction as required by Regulation S.

(2) Transfer of a Restricted Note (or any interest therein) to a transferee who takes delivery of such Note (or interest therein) in the form of a Regulation S Note will be made only in accordance with the Applicable Procedures (in the case of Global Notes) and upon receipt by the Trustee, the Issuers and the Note Registrar of a transfer certificate in the form provided in the Indenture to the effect that such transfer is being made to a non-U.S. Person in an offshore transaction (within the meaning of Regulation S) in accordance with Rule 904 of Regulation S. An exchange or transfer of a Note represented by a Definitive Note to a transferee who takes delivery of such Note in the form of a Regulation S Global Note may be made after the receipt by the Note Registrar or Transfer Agent, as the case may be, of the Definitive Notes to be so exchanged or transferred and upon receipt by the Trustee and the Issuers of a transfer certificate in the form provided in the Indenture.

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

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

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

(5) For so long as any of the Notes are listed on the Irish Stock Exchange and the rules of such exchange shall so require, the Issuers will have a paying agent for such Notes in Ireland and payments on and transfers or exchanges of interests in such Notes may be effected through the Irish Paying Agent. If the Irish Paying Agent is replaced at any time during such period, notice of the

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appointment of any replacement will be given to the Company Announcements Office of the Irish Stock Exchange.

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

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

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

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

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

(11) Because of time zone differences, cash received in Euroclear or Clearstream as a result of sales of interests in a Regulation S Global Note by or through a Euroclear or Clearstream 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 cash account only as of the business day following settlement in DTC.

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

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

(14) Although DTC, Euroclear and Clearstream have agreed to the foregoing procedures in order to facilitate transfers of interests in Global Notes among participants of DTC, Euroclear and Clearstream, 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 or their respective Participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

(15) The Issuer may impose additional transfer restrictions to comply with the USA PATRIOT Act, or any similar laws or regulations to the extent they are applicable to the Issuer, and each holder of Securities will be required to comply with such transfer restrictions.

Preference Shares

The Preference Shares will be issued in fully registered, definitive form, registered in the name of the legal owner thereof (or a nominee acting on behalf of the disclosed legal owner thereof). No Preference Share may be transferred except in accordance with the terms set forth in the Issuer Charter and the Preference Share Paying Agency Agreement.

No Gross-Up

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

The Indenture

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

Events of Default

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

(a) a default on any Distribution Date in the payment of any Interest accrued during the Interest Period immediately preceding such Distribution Date (i) on any Class A Note or Class B Note, (ii) if there are no Class A Notes or Class B Notes outstanding, on any

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Class C Note, (iii) if there are no Class A Notes, Class B Notes or Class C Notes outstanding, on any Class D Note or (iv) if there are no Class A Notes, Class B Notes, Class C Notes, or Class D Notes outstanding, on any Class E 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 failure to make such payment resulting, as certified in writing by the Trustee, solely from an administrative error or omission by the Trustee, the Administrator, any Paying Agent or the Note Registrar, seven days);

(b) a default in the payment of principal of any Note at its Stated Maturity or Redemption Date or, in the case of a failure to make such payment resulting solely from an administrative error or omission by the Administrator, the Trustee, any Paying Agent or the Note Registrar which continues for a period of seven days;

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

(d) either of the Issuers becomes an investment company required to be registered under the Investment Company Act;

(e) a default in the performance, or breach, of any other covenant or other agreement (other than any covenant to meet the Collateral Quality Tests or the Coverage Tests) 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 or breach 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 or to the Issuer, the Collateral Manager and the Trustee by the holders of at least 50% in aggregate outstanding principal amount of Notes of the Controlling Class;

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

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

(h) the Class A-1 OC Ratio falls below 100%.

If either of the 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, any Interest Rate Swap Counterparty, the

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Synthetic Security Counterparty, the Initial Investment Agreement Provider, the other of the Issuers and each Rating Agency of such Event of Default in writing.

If an Event of Default occurs and is continuing (other than an Event of Default described in clause (f) under "Events of Default" above), the Trustee (at the direction of the holders of a majority in aggregate outstanding principal amount of the Controlling Class) by notice to the Issuers, or holders of a majority in aggregate outstanding principal amount of the Controlling Class by notice to the Issuers and the Trustee, may declare the principal of and accrued and unpaid interest on all of the Notes to be immediately due and payable. If an Event of Default described in clause (f) above under "Events of Default" occurs, such an acceleration will occur automatically and without any further action. Notwithstanding the foregoing, if the sole Event of Default is an Event of Default described in clause (a) or clause (b) above under "Events of Default" with respect to a default in the payment of any principal of or interest on the Notes of a Class other than the Controlling Class, neither the Trustee nor the holders of such non-Controlling Class will have the right to declare such principal and other amounts to be immediately due and payable. Any declaration of acceleration may under certain circumstances be rescinded by the holders of at least a majority in aggregate outstanding principal amount of Notes of the Controlling Class. The **"Controlling Class"** will be the Class A-1b Notes or, if there are no Class A-1b Notes outstanding, the Class A-1a Notes or, if there are no Class A-1a Notes or Class A-1b Notes outstanding, the Class A-2 Notes or, if there are no Class A-1a Notes, Class A-1b Notes or Class A-2 Notes outstanding, the Class B Notes or, if there are no Class A-1b Notes, Class A-1a notes, Class A-2 notes or Class B Notes outstanding, the Class C Notes or, if there are no Class A-1b Notes, Class A-1a notes, Class A-2 notes, Class B Notes or Class C Notes outstanding, the Class D Notes or, if there are no Class A-1b Notes, Class A-1a notes, Class A-2 notes, Class B Notes, Class C Notes or Class D Notes outstanding, the Class E Notes.

If an Event of Default occurs and is continuing when any Note is outstanding, the Trustee will retain the Collateral intact and collect all payments in respect of the Collateral and continue making payments in the manner described under "—Priority of Payments" unless:

(a) the Trustee, or an independent investment banking firm of national reputation selected by the Trustee at the expense of the Issuer, determines that the anticipated net proceeds of a sale or liquidation of such Collateral would be sufficient to discharge in full the amounts then due and unpaid on the Notes and certain administrative expenses (including any amounts due to the Collateral Manager and any Interest Rate Swap Counterparty) in accordance with the Priority of Payments and the holders of a majority in aggregate outstanding principal amount of the Controlling Class agree with such determination;

(b) the holders of at least 66 2/3% in aggregate outstanding principal amount of each Class of the Notes voting as a separate Class (and (i) any Interest Rate Swap Counterparty, unless no early termination payment would be owing by the Issuer to the relevant Interest Rate Swap Counterparty or it will be paid in full all amounts owing to it by the Issuer and (ii) the Synthetic Security Counterparty, unless no payment would be owing by the Issuer to the Synthetic Security Counterparty or it will be paid in full all amounts owing to it by the Issuer) direct, subject to the provisions of the Indenture, the sale of the Collateral; or

(c) with respect to an Event of Default pursuant to paragraph (a), (b) or (h) of the definition of Event of Default the Holders of at least sixty-six and two-thirds percent (66 ⅔) of the Aggregate Outstanding Amount of the Controlling Class, so long as any Class A-1 Notes remain Outstanding, direct the sale and liquidation of the Collateral.

If an Event of Default occurs and is continuing and condition (a), condition (b) or condition (c) above is satisfied, the Trustee will liquidate the Collateral, including the termination or novation of the

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Synthetic Securities, and terminate any Interest Rate Swap Agreement and, on the second Business Day (the **"Accelerated Maturity Date"**) following the Business Day on which the Trustee notifies the Issuer, the Collateral Manager and each Rating Agency that such liquidation and such termination is completed, apply the proceeds thereof, net of reasonable costs of collection and enforcement, in accordance with the Priority of Payments described above under "Priority of Payments—Interest Proceeds" and "Priority of Payments—Principal Proceeds." The Accelerated Maturity Date will be treated as a Distribution Date.

The holders of a majority in aggregate outstanding principal amount of Notes of the Controlling Class will have the right to direct the Trustee in the conduct of any proceedings for any remedy available to the Trustee, *provided* that (a) such direction will not conflict with any rule of law or the Indenture; (b) the Trustee may take any other action not inconsistent with such direction (and the Trustee need not take any action whether pursuant to direction from the Controlling Class or otherwise that it determines might involve it in liability unless it has received indemnity against such liability as set forth in (c)); (c) the Trustee has been provided with indemnity satisfactory to it; and (d) 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.

The holders of a majority in aggregate outstanding principal amount of Notes of the Controlling Class, acting together with each Synthetic Security Counterparty, may, prior to the time a judgment or decree for the payment of money due has been obtained by the Trustee, waive any past default on behalf of the holders of all the Notes and its consequences, except a default in the payment of the principal of any Note or in the payment of interest (including any Deferred Interest, Defaulted Interest or interest thereon) on the Class A Notes or, after the Class A Notes have been paid in full, the Class B Notes or, after the Class B Notes have been paid in full, the Class C Notes, after the Class C Notes have been paid in full, the Class D Notes, or after the Class D Notes are paid in full, the Class E Notes, or in respect of a provision of the Indenture that cannot be modified or amended without the waiver or consent of the holder of each outstanding Note affected thereby or arising as a result of an Event of Default described in clause (d) above under "Events of Default." Notwithstanding any such grant of a waiver, an Interest Rate Swap Counterparty may rescind such waiver by notice to the Trustee, the Collateral Manager, each Synthetic Security Counterparty and the holders of the Controlling Class of Notes (given within five Business Days after receipt of notice of such waiver) if the relevant Interest Rate Swap Counterparty delivers a certification to the effect that such waiver will have a material and adverse effect on such Interest Rate Swap Counterparty.

No holder of a Note will have the right to institute any proceeding with respect to the Indenture unless (a) such holder previously has given to the Trustee written notice of an Event of Default, (b) except in certain cases of a default in the payment of principal or interest, the holders of at least 50% in aggregate outstanding principal amount of the Notes of the Controlling Class have made a written request upon the Trustee to institute such proceedings in its own name as Trustee and such holders have offered the Trustee reasonable indemnity, (c) the Trustee has for 30 days failed to institute any such proceeding

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and (d) no direction inconsistent with such written request has been given to the Trustee during such 30-day period by the holders of a majority in aggregate outstanding principal amount of the Notes of the Controlling Class.

In determining whether the holders of the requisite percentage of Notes or requisite percentage in interest of Preference Shareholders have given any direction, notice or consent, (a) Notes owned by the Issuer, the Co-Issuer or any affiliate thereof shall be disregarded and deemed not to be outstanding and (b) in relation to any assignment or termination of the Management Agreement (including the exercise of any right to remove the Collateral Manager or terminate the Management Agreement) or any amendment or other modification of the Management Agreement or the Indenture increasing the rights or decreasing the obligations of the Collateral Manager, Collateral Manager Securities shall be disregarded and deemed not to be outstanding. Collateral Manager Securities shall be disregarded and deemed not to be outstanding for purposes of determining whether holders of the requisite percentage in interest of Preference Shares have approved certain acquisitions of Underlying Assets from the Collateral Manager or its Affiliates. The Collateral Manager and its Affiliates will be entitled to vote Notes and Preference Shares held by them with respect to all matters other than those described in the foregoing clause (b) (including the selection of or consent to a successor collateral manager that is not an Affiliate of the existing Collateral Manager). The term **"Collateral Manager"** for purposes of this paragraph includes any successor or successors to HBK Investments L.P. and any of HBK Investments L.P.'s affiliated subadvisors.

Notices

Notices to the Noteholders will be given by first-class mail, postage prepaid, to the registered Noteholders at their addresses appearing in the Note Register. In addition, for so long as any of the Notes are listed on the Irish Stock Exchange and the rules of such exchange so require, notices will also be given to the Company Announcements Office of the Irish Stock Exchange.

Modification of the Indenture

With the consent of (a) the holders of not less than a majority of each Class materially and adversely affected thereby and all of the Preference Shareholders if materially and adversely affected thereby, (b) the consent of any Interest Rate Swap Counterparty adversely affected thereby, (c) the consent of the Synthetic Security Counterparty adversely affected thereby, and (c) the consent of the Initial Investment Agreement Provider adversely affected thereby, the Trustee and Issuers may enter into one or more indentures to add any provisions to, or change in any manner or eliminate any of the provisions of, the Indenture or modify in any manner the rights of the Noteholders of such Class, the Preference Shareholders, any Interest Rate Swap Counterparty, Synthetic Security Counterparty or the Initial Investment Agreement Provider, as the case may be, under the Indenture. Unless notified by holders of a majority in aggregate outstanding principal amount of any Class of Notes, a Majority-In-Interest of Preference Shareholders, any Interest Rate Swap Counterparty, the Synthetic Security Counterparty or the Initial Investment Agreement Provider that such Class of Notes or the Preference Shares, as the case may be, will be materially and adversely affected, or any Interest Rate Swap Counterparty will be adversely affected, or the Synthetic Security Counterparty will be adversely affected, or the Initial Investment Agreement Provider will be 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 and adversely affected, or any Interest Rate Swap Counterparty would be adversely affected, or the Synthetic Security Counterparty would be adversely affected, or the Initial Investment Agreement Provider would be adversely affected, by such change (after giving 15 Business Days' notice of such change to the holders of such Class of Notes, the Preference Shareholders, any Interest Rate Swap Counterparty and the Initial Investment Agreement Provider). Such determination shall be

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conclusive and binding on all present and future Noteholders, the Preference Shareholders, any Interest Rate Swap Counterparty, the Synthetic Security Counterparty and the Initial Investment Agreement Provider.

Notwithstanding the foregoing, the Trustee may not enter into any supplemental indenture without the consent of each holder of each outstanding Note of each Class affected thereby and each Preference Shareholder if the Preference Shares are affected by the supplemental indenture if such supplemental indenture:

(a) changes the Stated Maturity of any Note or the scheduled redemption date of the Preference Shares or the due date of any installment of interest on any Note or distribution of Excess Interest in respect of a Preference Share, reduces the principal amount of any Note or the rate of interest thereon, or the redemption price with respect to any Note or Preference Share, changes the earliest date on which the Issuer may redeem any Note or Preference Share or the amount of Excess Interest or Excess Principal Proceeds payable in respect of a Preference Share, changes the provisions of the Indenture relating to the application of proceeds of any Collateral to the payment of principal of or interest on the Notes or the payment of Excess Interest and Excess Principal Proceeds in respect of the Preference Shares, changes any place where, or the coin or currency in which, any Note or any Preference Share, or the principal thereof or interest thereon or any Excess Interest or Excess Principal Proceeds in respect thereof, respectively, is payable, or impairs the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof or the scheduled redemption date of the Preference Shares (or, in the case of redemption, on or after the applicable redemption date);

(b) reduces the percentage in aggregate outstanding principal amount of holders of Notes of each Class or the percentage of Preference Shares whose consent is required for the authorization of any supplemental indenture or for any waiver of compliance with applicable provisions of the Indenture or certain defaults thereunder or their consequences;

(c) impairs or adversely affects the Collateral pledged under the Indenture except as otherwise permitted thereby;

(d) 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 or deprives the holder of any Note of the security afforded by the lien created by the Indenture;

(e) reduces the percentage of the aggregate outstanding principal amount of holders of Notes of each Class 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;

(f) modifies any of the provisions of the Indenture with respect to supplemental indentures requiring the consent of Noteholders except to increase the percentage of outstanding Notes (or percentage of 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 affected thereby;

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(g) modifies the definition of the term **"Outstanding,"** the Priority of Payments or the subordination provisions of the Indenture;

(h) changes the permitted minimum denominations of any Class of Notes or the minimum number of Preference Shares; or

(i) modifies any of the provisions of the Indenture in such a manner as to affect the calculation of the amount of any payment of interest on or principal of any Note or the calculation of the amount of Excess Interest or Excess Principal Proceeds with respect to the Preference Shares on any Distribution Date or the right of the Noteholders or the Preference Shareholders to the benefit of any provisions for the redemption of such Notes or Preference Shares contained in the Indenture;

provided that no such supplemental indenture shall modify the rights of the Preference Shareholders without the written consent of each Preference Shareholder. At any time that any Class of Notes is rated by any Rating Agency, the Trustee shall not enter into any such supplemental indenture if, as a result of such supplemental indenture, the Rating Condition would not be satisfied with respect to such supplemental indenture, unless each holder of Notes of each Class whose rating will be reduced or withdrawn has consented to such supplemental indenture and each such Noteholder was notified prior to or at the time of its consent that a reduction or withdrawal of Standard & Poor's ratings was likely to occur.

The Issuers and the Trustee may also enter into supplemental indentures without obtaining the consent of the holders of any Notes or Preference Shares or any Interest Rate Swap Counterparty, the Synthetic Security Counterparty or the Initial Investment Agreement Provider in order to, among other things:

(a) evidence the succession of any person to the Issuer or the Co-Issuer and the assumption by such successor of the covenants in the Indenture and the Notes or to change the name of the Issuer or the Co-Issuer;

(b) add to the covenants of the Issuers or the Trustee for the benefit of the holders of all of the Notes and Preference Shares or to surrender any right or power conferred upon the Issuers;

(c) convey, transfer, assign, mortgage or pledge any property to or with the Trustee;

(d) evidence and provide for the acceptance of appointment under the Indenture by a successor trustee, collateral manager, listing agent, calculation agent, custodian, securities intermediary, note registrar, paying agent and/or collateral administrator and the compensation thereof and to add to or change any of the provisions of the Indenture as shall be necessary to facilitate the administration of the trusts under the Indenture by more than one Trustee;

(e) 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;

(f) make administrative and other non-material changes as the Issuer deems appropriate;

(g) obtain ratings on one or more Classes of Notes from any rating agency;

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(h) with the prior written consent of the Collateral Manager, 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 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;

(i) with the prior written consent of the Collateral Manager, correct any inconsistency, defect or ambiguity in the Indenture;

(j) with the prior written consent of the Collateral Manager, modify the restrictions on and procedures for resales and other transfers of the Notes to reflect any changes in applicable law or regulation (or the interpretation thereof) or in accordance with the USA PATRIOT Act, or other similar applicable laws or regulations to enable the 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;

(k) avoid the imposition of tax on the net income of the Issuer (or to reduce the amount of such tax payable by the Issuer) or of withholding tax on any payment to the Issuer, or prevent the Noteholders, the Preference Shareholders or the Trustee from being subject to withholding or other taxes, fees or assessments, or 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 or franchise tax on a net income tax basis, or avoid the Issuer being required to register as an investment company under the Investment Company Act (or to reflect any change permitted by the Indenture to avoid the occurrence of a Tax Event or the existence of a Tax Materiality Condition); provided that such action will not cause the Noteholders to be adversely affected to any material extent by any change to the timing, character or source of the income from the Note;

(l) with the prior written consent of the Collateral Manager, to avoid the consolidation of the Issuer with the Collateral Manager on the financial statements of the Collateral Manager;

(m) accommodate the issuance of any Class of Notes as definitive notes;

(n) if 100% of the Preference Shareholders request in writing to the Issuer and the Trustee, accommodate the issuance of additional Preference Shares with terms identical to those of the existing Preference Shares;

(o) if the Collateral Manager consents, modify the Auction Procedures; and

(p) correct any manifest error in any provision of the Indenture upon receipt by the Trustee of written direction from the Issuers describing in reasonable detail such error and the modification necessary to correct such error;

provided that, in each such case, such supplemental indenture would not materially and adversely affect any holder of Notes or any Preference Shareholder or adversely affect any Interest Rate Swap Counterparty, the Synthetic Security Counterparty or the Initial Investment Agreement Provider. Unless notified by holders of a majority in aggregate outstanding principal amount of Notes of any Class, a Majority-in-Interest of Preference Shareholders, any Interest Rate Swap Counterparty, the Synthetic

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Security Counterparty or the Initial Investment Agreement Provider that such Class or the Preference Shareholders will be materially and adversely affected, or any Interest Rate Swap Counterparty will be adversely affected, or the Synthetic Security Counterparty will be adversely affected, or the Initial Investment Agreement Provider will be adversely affected, the Trustee may rely upon an opinion of counsel as to whether the interests of any Noteholder or Preference Shareholder would be materially and adversely affected, or any Interest Rate Swap Counterparty would be adversely affected, or the Synthetic Security Counterparty would be adversely affected, or the Initial Investment Agreement Provider would be adversely affected, by any such supplemental indenture (after giving ten days' notice of such change to each Noteholder, Preference Shareholder, any Interest Rate Swap Counterparty, the Synthetic Security Counterparty and the Initial Investment Agreement Provider). The Trustee may not enter into any such supplemental Indenture if, with respect to such supplemental indenture, the Rating Condition would not be satisfied; unless (i) each holder of Notes of each Class with respect to which the Rating Condition would not be satisfied consents to such supplemental indenture and (ii) each such Noteholder was notified prior to or at the time of its consent that a reduction or withdrawal of Standard & Poor's ratings was likely to occur.

Notwithstanding any of the foregoing, the Trustee may not enter into any supplemental Indenture without the prior written consent of the Collateral Manager, any Interest Rate Swap Counterparty, the Synthetic Security Counterparty or the Initial Investment Agreement Provider, if such supplemental indenture adversely affects such party (as determined by such party in its reasonable judgment) in any respect or changes the rights or obligations of such party in any respect.

Modification of Certain Other Documents

Prior to entering into any amendment or other modification of, or consenting to or directing any assignment or termination of the Management Agreement or any Interest Rate Swap Agreement, the Issuer is required by the Indenture to obtain the written confirmation of each Rating Agency that the Rating Condition is satisfied with respect to such amendment, modification, assignment or termination. Prior to entering into any waiver in respect of any of the foregoing agreements, the Issuer is required to provide each Rating Agency, the Collateral Manager, any Interest Rate Swap Counterparty, the Synthetic Security Counterparty, the Controlling Class of Notes (for so long as any Class A-1 Notes remain Outstanding) and the Trustee with written notice of such waiver. The Indenture also provides that the Issuer may not amend or modify, or consent to or direct any assignment or termination of the Administration Agreement without the prior written consent of a Special-Majority-in-Interest of Preference Shareholders, any Interest Rate Swap Counterparty and the Synthetic Security Counterparty (if such Interest Rate Swap Counterparty or Synthetic Security Counterparty would be adversely affected thereby). The Synthetic Security Counterparty will be an express third party beneficiary of the Indenture.

Consolidation, Merger or Transfer of Assets

Except under the limited circumstances set forth in the Indenture, neither of the Issuers may consolidate with, merge into, or transfer or convey all or substantially all of its assets to, any other corporation, partnership, trust or other person or entity.

Petitions for Bankruptcy

The Indenture provides that the Noteholders 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 (or, if longer, the applicable preference period then in effect, including any period established pursuant to the laws of the Cayman Islands) and one day have elapsed since the payment in full of all Notes.

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Satisfaction and Discharge of Indenture

The Indenture will be discharged with respect to the Collateral upon delivery to the Trustee for cancellation of all of the Notes, or, within certain limitations (including the obligation to pay principal and interest, including Deferred Interest, Defaulted Interest and interest on Defaulted Interest), upon deposit with the Trustee of funds sufficient for the payment or redemption thereof and the payment by the Issuers of all other amounts due under the Notes, the Indenture, any Interest Rate Swap Agreement (including all relevant termination payments), the Administration Agreement, the Preference Share Paying Agency Agreement and the Management Agreement.

Trustee

Deutsche Bank Trust Company Americas will be the Trustee under the Indenture. The 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 Issuers. The Trustee and its affiliates may receive compensation in connection with the investment of trust assets in certain Eligible Investments as provided in the Indenture. Eligible Investments may include investments for which the Trustee and/or its affiliates provide services. The Indenture contains provisions for the indemnification of the Trustee for any loss, liability or expense incurred without negligence, willful misconduct or bad faith on its part, arising out of or in connection with the acceptance or administration of the Indenture. Pursuant to the Indenture, the Issuer has granted to the Trustee a lien senior to that of the Noteholders to secure payment by the Issuer of the compensation and expenses of the Trustee and any sums the Trustee may be entitled to receive as indemnification by the Issuer under the Indenture (subject to the dollar limitations set forth in the Priority of Payments with respect to any Distribution Date), which lien the Trustee is entitled to exercise only under certain circumstances. The Trustee may resign at any time by giving written notice of such resignation to the Preference Share Paying Agent, the Issuers, the Noteholders, the Collateral Manager and each Rating Agency. The Trustee may be removed by 66 2/3% in aggregate outstanding principal amount of the Notes (voting together as a single Class) or, at any time when an Event of Default shall have occurred and be continuing or when a successor Trustee has been appointed pursuant to the Indenture, by a majority in aggregate outstanding principal amount of the Controlling Class. No resignation or removal of the Trustee will become effective until the acceptance of the appointment of a successor Trustee. In the Indenture, the Trustee will agree not to cause the filing of a petition for winding up or a petition in bankruptcy against the Issuers for nonpayment to the Trustee of amounts payable thereunder until at least one year, or if longer, the applicable preference period then in effect including any period established pursuant to the laws of the Cayman Islands, and one day after the payment in full of all of the Notes.

Characterization of the Notes

The Issuer will treat the Notes as indebtedness of the Issuer for U.S. federal, state and local income tax purposes. The Indenture will provide that each holder, by accepting a Note, agrees not to take any action inconsistent with such treatment unless required by law.

Governing Law

The Notes, the Indenture, the Subscription Agreement, the Management Agreement, the Collateral Administration Agreement, any Interest Rate Swap Agreement, each Synthetic Security, the Initial Investment Agreement, the Preference Share Paying Agency Agreement and the Note Purchase Agreement will be governed by the law of the State of New York. The Issuer Charter, the Preference Shares and the Administration Agreement will be governed by the law of the Cayman Islands.

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Reports

The Issuer will deliver, or cause to be delivered, a monthly report (the **"Monthly Report"**), except for the months when it prepares the Note Valuation Report described below, containing certain information regarding, among other things, the characteristics and performance of the Underlying Assets included in the Collateral. The Issuer will deliver, or cause to be delivered, as of each Determination Date, a report (the **"Note Valuation Report"**), containing certain information regarding, among other things, the aggregate principal amount of, and payments of interest on or principal of, the Notes and the information with respect to the Underlying Assets normally included in the Monthly Report. In connection with the Monthly Report, the Issuer also shall provide, or cause to be provided, certain monitoring information to each Rating Agency as set forth in the Indenture. The Note Valuation Report will be delivered no later than 2 Business Days prior to the relevant Distribution Date.

Collateral Administrator

On or before the Closing Date, the Issuer shall enter into a collateral administration agreement (the **"Collateral Administration Agreement"**) among the Issuer, the Collateral Manager and Deutsche Bank Trust Company Americas, as collateral administrator (in such capacity, the **"Collateral Administrator"**), pursuant to which the Collateral Administrator will assist the Issuer in certain data collection and compellation functions with respect to the Underlying Assets.

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CERTAIN TERMS OF THE PREFERENCE SHARES

The following summary describes certain terms and conditions applicable to the Preference Shares. This summary, together with other portions of this Offering Circular summarizing terms and conditions applicable to the Preference Shares, does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the Indenture, the Issuer Charter and the Preference Share Paying Agency Agreement.

General

The Issuer is hereby offering 59,500 of its Preference Shares, par value U.S. $0.01 per share and a liquidation preference of $1,000 per share (the **"Preference Shares"**). The Preference Shares will be fully paid and non-assessable upon completion of such offering.

The net proceeds from the issuance of the Preference Shares, together with the net proceeds from the issuance of the Notes, will be used by the Issuer to purchase Underlying Assets and other Eligible Investments, all of which will be included in the Collateral and, pursuant to the Indenture, will be pledged by the Issuer to secure the Notes.

Even though each Preference Share has been assigned a liquidation preference of $1,000 per share, there is no assurance that, in the context of a liquidation of the Issuer, there will be sufficient funds to pay $1,000 per share to each holder of the Preference Shares.

Under the terms of the Preference Share Paying Agency Agreement, Deutsche Bank Trust Company Americas, acting through an affiliate or agent located outside the United States, will be the initial paying agent for the Preference Shares (in such capacity, the "Paying Agent"). The Issuer may not appoint a Paying Agent that does not have offices located outside the United States or does not use an affiliate or agent located outside the United States. Payments of dividends on the Preference Shares will be made from funds available in the Collection Accounts and released to the Paying Agent by the Trustee under the Indenture. All interest and principal payments on the Underlying Assets will be deposited directly into the Collection Accounts and, together with any reinvestment income thereon, will be available, subject to the Priority of Payments described in the Note Offering Circular, for the payment of certain of the Issuer's expenses (including the payment of the Management Fee to the Collateral Manager) and the payment of amounts payable with respect to the Notes, and then for the payment of amounts payable with respect to the Preference Shares. See "Description of the Notes—Priority of Payments" in the Note Offering Circular.

Payments on the Preference Shares will be made pursuant to certain procedures established by the Paying Agent under the Preference Share Paying Agency Agreement; provided that any final payment will be made upon presentation and surrender of the share certificates at the office of the Paying Agent. Payments on Rule 144A Preference Shares may be made in the United States by a United States dollar check drawn by the Paying Agent on a United States dollar account maintained by the Paying Agent or, at the request of any Preference Shareholder, by wire transfer from such account. In the case of Regulation S Global Preference Shares, payments will be made (i) by United States dollar check, by the Paying Agent mailing the same from an address located outside the United States, or (ii) at the request of any Preference Shareholder, by wire transfer from the account of the Paying Agent, acting though its affiliate or agent located outside of the United States, to a United States dollar account maintained by such Preference Shareholder at a bank outside of the United States.

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Status of the Preference Shares

The Preference Shares are equity in the Issuer and are not secured by the Collateral securing the Notes. As such, the Preference Shareholders will, on a winding up of the Issuer, rank behind all of the creditors, whether secured or unsecured and known or unknown, of the Issuer, including, without limitation, the Noteholders, any Interest Rate Swap Counterparty, the Synthetic Security Counterparty, the Initial Investment Agreement Provider and any judgment creditors.

Payments in respect of the Preference Shares are subject to certain requirements imposed by Cayman Islands law. Any amounts paid by the Preference Share Paying Agent as distributions by way of dividend on the Preference Shares will be payable only if the Issuer has sufficient distributable profits and/or share premium. In addition, such distributions and the payment of Excess Principal Proceeds upon redemption of the Preference Shares will be payable only to the extent that the Issuer is and remains solvent after such distributions are paid. Under Cayman Islands law, a company is generally deemed solvent if it is able to pay its debts as they come due.

To the extent the requirements under Cayman Islands law described in the preceding paragraph are not met, amounts otherwise payable to the Preference Shareholders will be retained in the Preference Share Payment Account until, in the case of any payment by way of dividend which would otherwise be payable other than on a redemption date of the Preference Shares, the next succeeding 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, in each case on which the Issuer notifies the Preference Share Paying Agent that such requirements are met. Amounts on deposit in the Preference Share Payment Account will not be available to pay amounts due to the Noteholders, the Trustee, the Collateral Manager, the Administrator, any Interest Rate Swap Counterparty or any other creditor of the Issuer whose claim is limited in recourse to the Collateral. However, amounts on deposit in the Preference Share Payment Account may be subject to the claims of creditors of the Issuer that have not contractually limited their recourse to the Collateral.

Rights of Consent of the Preference Shareholders

Set forth below is a summary of certain matters with respect to which the consent of the Preference Shareholders is required or in respect of which the Preference Shareholders may give directions. This summary is not meant to be an exhaustive list.

Optional Redemption of the Notes: On any Distribution Date on or after the March 2010 Distribution Date, the Notes may, subject to satisfaction of certain conditions described herein, be redeemed (in whole but not in part) at the direction of the holders of at least sixty-six and two thirds percent (66 2/3%) of the Preference Shares, as described under "Description of the Notes—Optional Redemption."

Tax Redemption of the Notes: On any Distribution Date, the Notes may, subject to satisfaction of certain conditions described herein, be redeemed (in whole but not in part) at the direction of a Majority-in-Interest of the Preference Shareholders; provided that, the Controlling Class may only direct a Tax Redemption in the event that, as a result of the relevant Tax Event, on a previous Payment Date one or more of the Class A-1a Notes, Class A-1b Notes, Class A-2 Notes or Class B Notes did not receive the amount that it otherwise would have received under the Priority of Payments in the absence of such Tax Event as described under "Description of the Notes—Tax Redemption."

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The Management Agreement: For a description of certain of the rights of the Preference Shareholders in relation to the removal of the Collateral Manager and the appointment of a successor Collateral Manager, see "The Management Agreement."

The Indenture: The Issuer is not permitted to enter into a supplemental indenture without the consent of the Preference Shareholders, if materially and adversely affected thereby.

Auction Call Redemption of the Preference Shares

The Preference Shares will be subject to redemption pursuant to an Auction Call Redemption occurring on or after the First Auction Call Date under the circumstances described under "Description of the Notes—Auction Call Redemption."

Distributions

On each Distribution Date beginning with the First Distribution Date and ending on the Final Redemption Date, the Paying Agent, on behalf of the Preference Shareholders, will be entitled to receive from the Trustee (for payment to the Preference Shareholders as a dividend or, on the Final Redemption Date, to redeem the Preference Shares pursuant to the Preference Share Paying Agency Agreement and in accordance with the Issuer Charter) all Excess Interest and all Excess Principal Proceeds and other funds received during the most recently ended Collection Period and remaining after payment by the Trustee on such date of all payments that take priority over payments to the Paying Agent (for the benefit of the Preference Shareholders) under the Indenture. Such Excess Interest and Excess Principal Proceeds are referred to herein collectively as **"Excess Cash Flows"**.

Failure to satisfy any of the Coverage Tests described under "Description of the Notes" in the Note Offering Circular may result in temporary or permanent diversion of all or a portion of amounts otherwise payable to the Paying Agent as Excess Interest and, therefore, of any amount payable on the Preference Shares. In addition, on any Distribution Date occurring after the March 2010 Distribution Date, an amount equal to 15% of the Excess Interest that would otherwise be distributed to Preference Shareholders on the related Distribution Date (after the payment of certain other amounts thereto) will be used instead to repay principal of the Class D Notes until the Class D Notes are paid in full. Preference Shareholders are entitled to share ratably in all assets remaining after payment of all liabilities of the Issuer, including the Notes.

Dividends

Pursuant to a Preference Share Paying Agency Agreement, to be dated as of the Closing Date (the **"Preference Share Paying Agency Agreement"**), between the Issuer and Deutsche Bank Trust Company Americas, acting through an affiliate or agent outside the United States (**the "Paying Agent"**), on each Distribution Date, the Preference Shares will be entitled to receive dividends in an amount equal to all Excess Cash Flows received by the Paying Agent on such Distribution Date, without requiring any declaration of such dividends by the Issuer's board of directors.

The Issuer Charter and resolutions passed by the Issuer's board of directors will provide for the payment of dividends on the Preference Shares, without requiring any declaration by the board of directors, on each Distribution Date, other than the Final Redemption Date, in an amount equal to the amount of all Excess Cash Flows paid to the Paying Agent by the Trustee on such Distribution Date pursuant to the Indenture.

Such dividends, if any, will be paid on each Distribution Date, other than the Final Redemption Date, to the Preference Shareholders in whose names the Preference Shares are registered at the close

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of business fifteen days prior to the applicable Distribution Date (the **"Record Date"**). All dividend payments will be made pro rata according to the number of Preference Shares held by such Preference Shareholders.

The payment of such dividends will be subject to the Issuer having sufficient distributable profits or "share premium" (being the difference between the aggregate liquidation preference of the Preference Shares and the aggregate par value of the Preference Shares) out of which to pay such amounts and, in the case of a payment from share premium, the Issuer being able to pay its debts as they fall due in the ordinary course of its business.

Governing Law

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

Notices

Notices to the Preference Shareholders will be in writing, and will be mailed, first-class postage prepaid or overnight delivery, or sent via facsimile or e-mail by the Paying Agent, acting through its affiliate or agent located outside the United Stated, from outside the United States to each of the registered holders as reflected in the Preference Share Register.

Form, Minimum Lots, Registration and Transfer

General

The Preference Shares will be subject to certain restrictions on transfer set forth therein and in the Issuer Charter and may bear a legend regarding such restrictions.

Preference Shares initially offered in the U.S. in reliance upon an exemption from the registration requirements of the Securities Act provided by Section 4(2) thereof (i) to a limited number of institutional Accredited Investors (within the meaning of rule 501(a)(1), (2), (3) or (7) under the Securities Act) or (ii) to "Qualified Institutional Buyers", as defined in Rule 144A under the Securities Act (**"Rule 144A Preference Shares"**) will be represented by certificates in fully registered definitive form registered in the name of the legal and beneficial owner thereof.

Preference Shares that will be sold to non-U.S. Persons in "offshore transactions" in reliance upon Regulation S under the Securities Act will initially be represented by one or more temporary global share certificates (**"Temporary Regulation S Global Preference Shares"**), that will be exchangeable for one or more permanent global Preference Shares (**"Permanent Regulation S Global Preference Shares"** and, together with the Temporary Regulation S Global Preference Shares, the **"Regulation S Global Preference Shares"**) in fully registered form, deposited with and registered in the name of, The Depository Trust Company (**"DTC"**) (or its nominee), initially for the accounts of Euroclear Bank S.A./N.V., as operator of the Euroclear system (**"Euroclear"**), and/or Clearstream Banking, société anonyme (**"Clearstream"**). During the Distribution Compliance Period, beneficial interests in a Regulation S Global Preference Share may only be held through Euroclear or Clearstream. By acquisition of a beneficial interest in a Regulation S Global Preference Share, any purchaser thereof will be deemed to represent that it is not a U.S. Person and that, if in the future it decides to transfer such beneficial interest, it will transfer such interest only in an offshore transaction in accordance with Regulation S or to a person who takes delivery in the form of a Rule 144A Preference Share. Beneficial interests in each Regulation S

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Global Preference Share 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.

Owners of beneficial interests in Regulation S Global Preference Shares will be entitled or required under certain limited circumstances described below, to receive physical delivery of share certificates representing certificated Preference Shares (**"Definitive Preference Shares"**) in fully registered, definitive form. No owner of an interest in a Regulation S Global Preference Share will be entitled to receive a Definitive Preference Share (A) until after the expiration of the Distribution Compliance Period and (B) unless for a person other than a distributor (as defined in Regulation S), such person provides certification that the Definitive Preference Share is beneficially owned by a person that is not a U.S. Person (as defined in Regulation S).

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

Investors may hold their interests in a Regulation S Global Preference Share directly through Euroclear or Clearstream, if they are participants in such systems, or indirectly through organizations which are participants in such systems. After the Distribution Compliance Period (but not earlier), investors may also hold such interests other than through Euroclear or Clearstream. Euroclear and Clearstream will hold interests in Regulation S Global Preference Shares on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositaries, which in turn will hold such interests in such Regulation S Global Preference Shares in customers' securities accounts in the depositaries' names on the books of DTC.

Distributions on a Regulation S Global Preference Share registered in the name of DTC or its nominee will be made to DTC or its nominee as the registered owner of the Regulation S Global Preference Share. None of the Issuer or the Preference Share Registrar will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in Regulation S Global Preference Shares or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

With respect to the Regulation S Global Preference Shares, the Issuer expects that DTC or its nominee, upon receipt of any distribution on such Regulation S Global Preference Share, will immediately credit the accounts of Participants with payments in amounts proportionate to their respective beneficial interests in the number of such Regulation S Global Preference Share as shown on the records of DTC or its nominee. The Issuer also expects that payments by Participants to owners of beneficial interests in such Regulation S Global Preference Share 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.

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Deutsche Bank Trust Company Americas, acting through an affiliate or agent located outside the United States, has been appointed a transfer agent with respect to the Preference Shares (the **"Preference Share Transfer Agent"**).

The Preference Shares are subject to the restrictions on transfer set forth in this Offering Circular under "Transfer Restrictions".

The Preference Shares are being offered, and may only be transferred, in minimum lots of 200 shares.

The Preference Shares are not issuable in bearer form.

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 (the "Preference Share Register"). Written instruments of transfer are available at the office of the Preference Share Registrar.

The Issuer is authorized to issue 59,500Preference Shares par value U.S.$0.01 per share.

Definitive Preference Shares

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

Transfer and Exchange

Transfers by a holder of a beneficial interest in a Regulation S Global Preference Share to a transferee who takes delivery of such interest through a Rule 144A Preference Share will be made only in accordance with the Applicable Procedures and upon receipt by the Preference Share Registrar of written certifications from (i) the transferor of the 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 to a person whom the transferor reasonably believes is a Qualified Institutional Buyer, purchasing for its own account,

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to whom notice is given that the resale, pledge or other transfer is being made in reliance on the exemption from Securities Act registration provided by Rule 144A and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction and (ii) the transferee in the form provided for in the Preference Share Paying Agency Agreement to the effect that, among other things, the transferee is (a) a Qualified Institutional Buyer and (b) either a Qualified Purchaser or is not a U.S. resident (within the meaning of the Investment Company Act).

Transfers by a holder of a beneficial interest in a Regulation S Global Preference Share to a transferee who takes delivery of such interest through a Regulation S Global Preference Share will be made only to a transferee that is acquiring such interest in an offshore transaction (within the meaning of Regulation S) in accordance with Rule 904 of Regulation S and only in accordance with the Applicable Procedures, without the provision of any written certification. If such transfer occurs after the end of the Distribution Compliance Period and is not made in an offshore transaction in accordance with Rule 904 of Regulation S, such transfer may be made only upon receipt by the Preference Share Registrar of written certification from the transferee to the effect that the transferee is (a) a Qualified Institutional Buyer and (b) either a Qualified Purchaser or is not a U.S. resident (within the meaning of the Investment Company Act).

Transfers by a holder of a Rule 144A Preference Share to a transferee who takes delivery of such interest through an interest in a Regulation S Global Preference Share will be made only upon receipt by the Preference Share Registrar of written certifications from (i) the transferor in the form provided in the Preference Share Paying Agency Agreement to the effect that such transfer is being made in an offshore transaction (within the meaning of Regulation S) in accordance with Rule 904 of Regulation S and (ii) the transferee to the effect that the transferee is not a U.S. Person, purchasing for its own account and not for the account or benefit of a U.S. Person.

Exchanges or transfers by a holder of a Definitive Preference Share to a transferee who takes delivery of such Note through a Regulation S Global Preference Share will be made no later than 60 days after the receipt by the Preference Share Registrar or Transfer Agent, as the case may be, of the Definitive Preference Shares to be so exchanged or transferred only in accordance with the Applicable Procedures, and, if applicable, upon receipt by the Preference Share Registrar of a written certification from the transferor in the form provided in the Preference Share Paying Agency Agreement.

Transfers by a holder of a Rule 144A Preference Share to a transferee who takes delivery of a Rule 144A Preference Share will be made only upon receipt by the Preference Share Transfer Agent or the Preference Share Registrar of written certifications from (i) the transferor in the form provided in the Preference Share Paying Agency Agreement to the effect that, among other things, such transfer is being made to a person whom the transferor reasonably believes is a Qualified Institutional Buyer, purchasing for its own account, to whom notice is given that the resale, pledge or other transfer is being made in reliance on the exemption from Securities Act registration provided by Rule 144A, in accordance with any applicable securities laws of any state of the United States or any other jurisdiction and (ii) the transferee in the form provided for in the Preference Share Paying Agency Agreement to the effect that, among other things, the transferee is (a) a Qualified Institutional Buyer and (b) either a Qualified Purchaser or is not a U.S. resident (within the meaning of the Investment Company Act).

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

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Definitive Preference Shares and Rule 144A Preference Shares may be exchanged or transferred in whole or in part in the principal amount of authorized denominations by surrendering such Definitive Preference Shares or Rule 144A Preference Shares, as the case may be, at the office of the Preference Share Registrar or the Preference Share Transfer Agent with a written instrument of transfer as provided in the Preference Share Paying Agency Agreement. In addition, if the Definitive Preference Shares being exchanged or transferred contain a Legend, additional certifications to the effect that such exchange or transfer is in compliance with the restrictions contained in such Legend, may be required. With respect to any transfer of a portion of Definitive Preference Shares or Rule 144A Preference Shares, the transferor will be entitled to receive, at any aforesaid office, new Definitive Preference Shares or Rule 144A Preference Shares, as the case may be, representing the principal amount retained by the transferor after giving effect to such transfer. Definitive Preference Shares and Rule 144A Preference Shares issued upon any such exchange or transfer (whether in whole or in part) will be made available at the office of the Preference Share Transfer Agent.

The laws of some states require that certain persons take physical delivery of securities in definitive form. Consequently, any transfer of beneficial interests in Regulation S Global Preference Shares to such persons may require that such interests in Regulation S Global Preference Shares be exchanged for Definitive Preference Shares. 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 Regulation S Global Preference Shares 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 Regulation S Global Preference Shares be exchanged for Definitive Preference Shares. Interests in a Regulation S Global Preference Share will be exchangeable for Definitive Preference Shares only as described above.

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

Because of time zone differences, cash received in Euroclear or Clearstream as a result of sales of interests in Regulation S Global Preference Shares by or through a Euroclear or Clearstream 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 cash account only as of the business day following settlement in DTC.

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

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

Although DTC, Clearstream and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of interests in a Regulation S Global Preference Share among participants of DTC, Clearstream and Euroclear, 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 Trustee and the Paying Agent will have any responsibility for the performance by DTC, Clearstream or Euroclear or their respective Participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

If, notwithstanding the foregoing restrictions, the Issuer determines that any beneficial owner of Rule 144A Preference Shares (A) is a U.S. Person (within the meaning of Regulation S under the Securities Act) and (B) is not 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 Rule 144A Preference Shares 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, (i) upon direction from the Collateral Manager or the Issuer, the Preference Share Registrar, on behalf of and at the expense of the Issuer, shall cause such beneficial owner's interest in such Preference Shares to be transferred in a commercially reasonable sale (conducted by the 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 the Preference Share Registrar, the Issuer and the Collateral Manager, in connection with such transfer, that such person is both a Qualified Institutional Buyer and a Qualified Purchaser and (b) pending such transfer, no further payments will be made in respect of the Preference Shares held by such beneficial owner.

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

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

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All Preference Shares issued upon any exchange or registration of transfer are entitled to the same benefits as the Preference Shares surrendered upon exchange or registration of transfer.

The Preference Share Registrar will effect exchanges and transfers of Preference Shares. In addition, the Preference Share Registrar will keep in the Preference Share Register records of the ownership, exchange and transfer of the Preference Shares.

No Gross-Up

All distributions of dividends and return of capital on the Preference Shares will be made without any deduction or withholding for or on account of any tax unless such deduction or withholding is required by any applicable law, as modified by the practice of any relevant governmental revenue authority, then in effect. If the Issuer is so required to deduct or withhold, then the Issuer will instruct the Paying Agent to make such deduction or withholding and will pay any such withholding taxes in the country of origin, but will not be obligated to pay any additional amounts in respect of such withholding or deduction.

Prescription

Payments in respect of the Preference Shares will cease to be due if not paid to the holder due to insufficient instructions for a period of ten years from the Relevant Date therefore. "Relevant Date" means the date on which the final payment in respect of the Preference Shares first becomes due, except that if the full amount of the moneys payable has not been duly received by the Paying Agent on or prior to such due date, it means the date on which such moneys have been so received.

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USE OF PROCEEDS

The gross proceeds received from the issuance and sale of the Notes and the Preference Shares will be at least U.S.$1,070,000,000. On the Closing Date, the Issuer will receive at least U.S.$1,060,000,000 as the net proceeds from the issuance and sale of the Notes and the Preference Shares. The net proceeds from the issuance and sale of the Notes and the Preference Shares are the gross proceeds net of the payment of the placement and structuring fees related to the placement of the Notes and Preference Shares, the payment of other closing expenses and an initial deposit into the Expense Account. Such net proceeds from the issuance and sale of the Notes and the Preference Shares will be used by the Issuer to purchase a diversified portfolio of interests in Underlying Assets having the characteristics described herein under "Security for the Notes—Underlying Assets" and to fund certain accounts established under the Indenture. A list of all Underlying Assets included in the portfolio on the Closing Date will be provided to all investors by the Initial Purchaser.

On the Closing Date, the Issuer will have acquired (or committed to acquire for settlement in accordance with customary settlement procedures in the relevant markets) the entire portfolio. As of the Closing Date, the portfolio, along with funds on deposit in the Uninvested Proceeds Account, will consist of Underlying Assets (acquired or committed to be acquired) having an Aggregate Principal/Notional Balance (including principal collections on such Underlying Assets deposited in the Uninvested Proceeds Account on the Closing Date) of at least U.S.$1,100,000,000. Pending investment in Underlying Assets, the Uninvested Proceeds, if any, will be deposited into the Uninvested Proceeds Account and invested in Eligible Investments. In the event that there are any remaining Uninvested Proceeds on the Determination Date preceding the September 2007 Distribution Date, they will be transferred to the Payment Account and treated as Principal Proceeds on the September 2007 Distribution Date and distributed in accordance with the Priority of Payments.

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RATING OF THE NOTES

It is a condition to the issuance of the Notes that the Class A-1a Notes be rated "Aaa" by Moody's and "AAA" by Standard & Poor's, that the Class A-1b Notes be rated "Aaa" by Moody's and "AAA" by Standard & Poor's, that the Class A-2 Notes be rated "Aaa" by Moody's and "AAA" by Standard & Poor's, that the Class B Notes be rated at least "Aa2" by Moody's and "AA" by Standard & Poor's, that the Class C Notes be rated at least "A2" by Moody's and "A" by Standard & Poor's, that the Class D Notes be rated at least "Baa2" by Moody's and "BBB" by Standard & Poor's and that the Class E Notes be rated at least "Ba1" by Moody's and "BB+" by Standard & Poor's. The ratings assigned to the Class A Notes and the Class B Notes by Standard & Poor's address the timely payment of interest on, and the ultimate payment of the principal of, the Class A Notes and the Class B Notes. The ratings assigned to the Class C Notes, the Class D Notes and the Class E Notes by Standard & Poor's address the ultimate payment of principal of, and the ultimate payment of interest on, the Class C Notes, the Class D Notes and the Class E Notes. The ratings assigned to the Notes by Moody's address the ultimate cash receipt of all required payments as provided by the governing documents, and are based on the expected loss to the Noteholders of each Class relative to the promise of receiving the present value of such payments. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

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MATURITY AND PREPAYMENT CONSIDERATIONS

The Stated Maturity of each Class of Notes is the December 2045 Distribution Date. The Notes will mature at their Stated Maturity unless redeemed or repaid prior thereto. However, the average lives of the Notes may be less than the number of years until the Stated Maturity. Based on the portfolio of Underlying Assets that the Collateral Manager expects the Issuer to purchase no later than the Determination Date preceding the September 2007 Distribution Date, and assuming (a) no Underlying Assets default, and (b) prepayment of any Underlying Assets during any month occurs at a rate equal to an average rate of prepayment specified by the Collateral Manager, redemption will occur and the average life of each Class of Notes from the Closing Date will be as follows:

	Average Life in Years assuming an Auction Call Redemption occurring
Class A-1a Notes	2.1
Class A-1b Notes	3.1
Class A-2 Notes	4.9
Class B Notes	5.8
Class C Notes	6.4
Class D Notes	5.9
Class E Notes	6.5

Such average lives of the Notes are presented for illustrative purposes only. The assumptions used to calculate the average lives of the Notes are necessarily arbitrary, do not necessarily reflect historical experience with respect to securities similar to the Underlying Assets and do not constitute a prediction with respect to the rates or timing of receipts of Interest Proceeds or Principal Proceeds, defaults, recoveries, sales, prepayments or optional redemptions to which the Underlying Assets may be subject. Actual experience as to these matters will differ, and may differ materially, from that assumed in calculating the illustrative average lives set forth above, and consequently the actual average lives of the Notes will differ, and may differ materially, from those set forth above. In addition, the assumptions set forth above do not necessarily reflect historical performance and defaults for Asset-Backed Securities and the Issuer makes no representation or warranty that such assumptions are appropriate or reasonable. Accordingly, prospective investors should make their own determinations of the expected weighted average lives and maturity of the Notes and, accordingly, their own evaluation of the merits and risks of an investment in the Notes. See "Risk Factors—Projections, Forecasts and Estimates."

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

The average lives of the Notes will be determined by the amount and frequency of principal payments. The actual average lives of the Notes will also be affected by the financial condition of the obligors of the Underlying Assets 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 and the actual default rate and the actual level of recoveries on any Defaulted Securities. The rate of future defaults and the amount and timing of any cash realization from Defaulted Securities also will affect the average lives of the Notes.

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SECURITY FOR THE NOTES

General

The Collateral securing the Notes will consist of:

(a) the Underlying Assets and Equity Securities (if any) and the Offset Transactions and the Offsetting Transactions;

(b) the rights of the Issuer under any Interest Rate Swap Agreement;

(c) amounts on deposit in the Payment Account, the Interest Collection Account, the Principal Collection Account, the Expense Account, the Uninvested Proceeds Account, the Synthetic Security Collateral Account, the Interest Rate Swap Counterparty Collateral Account, the Disposition Proceeds Account and the Synthetic Security Issuer Account (collectively, the **"Accounts"**) and Eligible Investments purchased with funds on deposit in such accounts;

(d) the rights of the Issuer under the Management Agreement, the Note Purchase Agreement, the Subscription Agreement, the Collateral Administration Agreement and the Administration Agreement; and

(e) all proceeds of the foregoing (collectively, the **"Collateral"**). The Collateral will not include the Excepted Property.

Underlying Assets—Asset-Backed Securities

An **"Asset-Backed Security"** includes any Dollar-denominated asset-backed security or any security that represents a direct or indirect interest in such an asset-backed security that, at the time of acquisition (or commitment for acquisition) by the Issuer, is not a Prohibited Asset or a Defaulted Asset and which satisfies each of the following conditions:

(a) it provides for a fixed amount payable in cash no later than its stated maturity;

(b) the Underlying Instruments with respect to such Asset-Backed Security do not prohibit it from being purchased by the Issuer and pledged to the Trustee;

(c) it is not denominated or payable in, or convertible into an obligation or security denominated or payable in, a currency other than Dollars;

(d) it does not require the Issuer to make future advances or payments to the obligor or issuer;

(e) it has a Standard & Poor's Rating (excluding those with a rating from Standard & Poor's which includes the subscript "p", "pi", "q", "r" or "t") and a Moody's Rating (with respect to the full amount of principal and interest promised);

(f) it is not "margin stock" and does not provide for conversion into "margin stock";

(g) it is not subject to an Offer;

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(h) it (or, if it is a certificate of beneficial interest in an entity that is treated as a grantor trust or a partnership and not as a REMIC or FASIT for U.S. federal income tax purposes, each of the debt instruments or securities held by such entity) is described in at least one of the following four clauses:

(i) it is a Public Security that was issued in a firm commitment underwriting for which neither the Collateral Manager nor an Affiliate thereof served as underwriter;

(ii) it was not purchased by the Issuer (A) directly or indirectly from its issuer, (B) pursuant to a legally binding agreement made before the issuance of the obligation or security or (C) from the Collateral Manager or any of its Affiliates unless such entity (1) regularly acquires securities of the same type for its own account, (2) could have held the obligation or security for its own account consistent with its investment policies, (3) did not identify the obligation or security as intended for sale to the Issuer or the Collateral Manager within 30 days of its issuance and (4) held the obligation or security for at least 30 days;

(iii) it is a Private Security and

(A) it was originally issued pursuant to an offering circular, private placement memorandum or similar offering document;

(B) the Issuer, the Collateral Manager and the Affiliates of the Collateral Manager did not at original issuance acquire 20% or more of the aggregate principal amount of all classes of securities offered by the issuer of the Asset-Backed Security in the offering and any related offering; provided in each case that any acquisition by an Affiliate of the Collateral Manager that is not a member of the Collateral Manager Group shall be included only if the Collateral Manager or any of its employees or agents knew or had reason to know of such acquisition; and

(C) the Issuer, the Collateral Manager and any Affiliate of the Collateral Manager did not participate in negotiating or structuring the terms of the Asset-Backed Security, except (1) to the extent such participation consisted of an election by the Issuer, the Collateral Manager or an Affiliate of the Collateral Manager to tranche the subordinate classes of securities of an issue in the form of one of the structuring options offered by the issuer of the securities or (2) for the purposes of (i) commenting on offering documents to an unrelated underwriter or placement agent where the ability to comment on such documents was generally available to investors or (ii) due diligence of the kind customarily performed by investors in securities, or (3) to the extent the Collateral Manager or any Affiliate of the Collateral Manager, either directly or indirectly through a conduit Issuer, was the issuer of the Asset-Backed Security; provided that any participation in negotiating or structuring by any Affiliate of the Collateral Manager that is not a member of the Collateral Manager Group shall be included only if the Collateral Manager or any of its employees or agents knew or had reason to know of such participation; or

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(iv) it is either (A) the sole material obligation of a repackaging vehicle formed and operated exclusively to hold a single Asset-Backed Security described in at least one of clauses (h)(i), (h)(ii) or (h)(iii), which vehicle may also hold a derivative financial instrument or guarantee designed solely to offset one or more terms of such Asset-Backed Security or (B) a security issued by a repackaging vehicle that holds one or more Asset-Backed Securities described in at least one of clauses (h)(i), (h)(ii), (h)(iii), or (h)(iv)(A) and which is treated as a REMIC, FASIT, grantor trust, or partnership for U.S. federal income tax purposes, and is formed by the Collateral Manager or one of its Affiliates;

(i) if interest income on an Asset-Backed Security is considered U.S.-source income for U.S. federal income tax purposes, it is in registered form for U.S. federal income tax purposes and it (and if it is a certificate of interest in a trust that is treated as a grantor trust and not as a REMIC or FASIT for U.S. federal income tax purposes, each of the obligations or securities held by such trust) was issued after July 18, 1984; provided that, if it is a certificate of beneficial interest in an entity that is treated as a partnership for U.S. federal income tax purposes, each of the obligations or securities held by such entity is in registered form for U.S. Federal income tax purposes and was issued after July 18, 1984 (a **"Registered"** obligation or security);

(j) either (i) the Issuer meets the certification and other requirements to receive payments with respect to the Asset-Backed Security free of U.S. and foreign withholding tax, (ii) the issuer thereof is required to make additional payments sufficient on an after-tax basis to cover any U.S. and foreign withholding tax imposed on payments made to the Issuer with respect thereto (including any tax on the additional payments described in this paragraph) or (iii) the issuer thereof has obtained or expects to obtain in the ordinary course and not more than six weeks following the issuance thereof an exemption from withholding tax for the entire period during which the Notes and the Preference Shares will be outstanding; provided that, for purposes of this clause (h), a determination that an Asset-Backed Security is eligible for exemption from U.S. withholding tax under Section 871(h) or Section 881(c) of the Code may be based on advice of Allen & Overy LLP or an opinion of counsel that the Asset-Backed Security will or should be treated as debt for U.S. federal income tax purposes;

(k) (i) the Asset-Backed Security is the obligation of a single issuer incorporated as a corporation under the state or federal laws of the United States, that is not a U.S. real property holding company; (ii) the Issuer has been advised by Allen & Overy LLP or has received an opinion of counsel that owning the Asset-Backed Security will not subject the Issuer to U.S. federal income tax on a net income basis or cause the Issuer to be treated as engaged in a trade or business within the United States; (iii) the Issuer has received an opinion of counsel that the Asset-Backed Security will be treated as debt for U.S. federal income tax purposes; (iv) the Issuer has received an opinion of counsel that for U.S. federal income tax purposes (A) the issuer of the Asset-Backed Security is a grantor trust and (B) all the assets of the trust are regular interests in a REMIC or FASIT or interest rate floors, caps, swaps or other notional principal contracts (within the meaning of applicable Treasury Regulations), the payments under which are determined solely by reference to interest rates, or (v) the Alternative Debt Test is satisfied, provided that, for purposes of clauses (f), (g), (h) and this clause (i), (1) an opinion of counsel that the issuer of an Asset-Backed Security will be treated as a REMIC or FASIT for U.S. federal income tax purposes shall be treated as an opinion of counsel that the Asset-Backed

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Security will be treated as debt for U.S. federal income tax purposes (unless the Asset-Backed Security is the residual interest in the REMIC or the ownership interest in the FASIT), (2) if there has been no change in the terms of an Asset-Backed Security prior to its acquisition, the Issuer shall be treated as having received an opinion that it will or should be treated as debt if the Issuer either has obtained a tax opinion to that effect rendered at the issuance of such Asset-Backed Security or has received offering documents pursuant to which such Asset-Backed Security was offered that include a tax opinion to such effect or state that an opinion of counsel to such effect has been rendered, and (3) if there has been no change in any of the organizational documents of an entity issuing an Asset-Backed Security since its issuance, the Issuer shall be treated as having received an opinion that such entity will be treated as a corporation, partnership, grantor trust, REMIC or FASIT (as the case may be) for U.S. federal income tax purposes if the Issuer either has obtained a tax opinion to that effect rendered at the time of the issuance of the Asset-Backed Security or has obtained offering documents that include an opinion of counsel to such effect or state that an opinion of counsel to such effect has been rendered;

(l) it is not a swap transaction or other derivative financial instrument referencing a debt instrument;

(m) acquisition of the Asset-Backed Security will not cause the Issuer to register, or be required to register, under the Investment Company Act;

(n) it is not convertible into one or more Equity Securities;

(o) it is not currently deferring interest;

(p) it is not a Written Down Security;

(q) it is expected to have an outstanding Principal/Notional Balance of less than U.S.$1,000 as of the Stated Maturity of the Notes, assuming a constant prepayment rate since the date of purchase equal to the lesser of (a) 5.0% per annum and (b) the constant prepayment rate reasonably expected by the Collateral Manager as of the date of purchase, or, if constant prepayment rate is not applicable, the slowest prepayment scenario as described in the prospectus relating to such Asset-Backed Security; and

(r) it will be pledged to the Trustee under the Indenture.

An **"A/B Exchange"** is an exchange of one security (the **"A Security"**) for another security (the **"B Security"**) of the same issuer or issuers which B Security shall have substantially identical terms to the A Security except that one or more restrictions applicable to the A Security are inapplicable to the B Security.

The **"Alternative Debt Test"** is satisfied with respect to a security if, on the date the Issuer acquires such security, each of the following is satisfied:

(a) such security is in the form of a note or other debt instrument and is treated as debt for corporate law purposes in the jurisdiction of the issuer of such security;

(b) the documents pursuant to which such security was offered, if any, do not require that any holder thereof treat such security other than as debt for tax purposes;

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(c) such security bears interest at a fixed rate per annum or at a rate based upon a customary floating rate index plus or minus a spread and does not provide for any interest based on any other factor, such as the issuer's profits or cash flow;

(d) such security had a fixed term at original issuance not in excess of 35 years;

(e) such security provides for a fixed principal amount (leaving no amount outstanding) payable no later than its stated maturity; and

(f) such security is rated at least "BB" by Fitch, at least "BB" by Standard & Poor's or at least "Ba2" by Moody's, and if so rated, such rating is not on watch for downgrade by Moody's, as to ultimate payment of principal and interest; provided that, in the case of a security in the form of a beneficial interest in an entity that is treated (as evidenced by an opinion of counsel or a reference to an opinion of counsel in documents pursuant to which such security was offered) as a grantor trust or a partnership for U.S. federal income tax purposes and not as an association taxable as a corporation, any of the conditions specified in clauses (a), (b), (c), (d) and (e) may be satisfied by reference to each asset held by such entity rather than by reference to such beneficial ownership interests.

"Collateral Manager Group" means the Collateral Manager and any directly or indirectly controlled subsidiary of the Collateral Manager.

An **"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.

A **"Private Security"** is any security that is not a Public Security, including, without limitation, any of the following:

(a) any security that was not (i) issued pursuant to an effective registration statement under the Securities Act or (ii) a privately placed security that is eligible for resale under Rule 144A or Regulation S under the Securities Act;

(b) any security (other than a Public Security or a security described by clause (c) below) that is eligible for resale under Rule 144A under the Securities Act; or

(c) any security that is not a Public Security but that (i) is eligible for resale by the Issuer under Rule 144A under the Securities Act and (ii) with respect to which the Issuer, either by itself or together with other holders of such securities, has the right to require the issuer thereof (or such issuer is otherwise obligated or is penalized if such item is not so registered), within one year from any date of determination, to register under the Securities Act the public resale of such security or to effect an A/B Exchange; provided that clause (ii) does not apply to Asset-Backed Securities.

A **"Prohibited Asset"** is any of the following: (a) any asset the ownership of which would cause the Issuer to be subject to income tax on a net income basis in any jurisdiction, or (b) any asset the gain from the Disposition of which will be subject to U.S. federal income or withholding tax under Section 897 or Section 1445 of the Code and Treasury Regulations promulgated thereunder; *provided, however,* that the Issuer shall set up a special purpose subsidiary (which shall be a corporation for U.S. tax purposes) to

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receive and hold an Equity Security, unless it has consulted with its tax counsel and has been advised that the Issuer can hold the Equity Security directly without causing the Issuer to be treated as engaged in a trade or business in the United States for U.S. federal income tax purposes.

A **"Public Security"** is any of the following: any security (a) the public resale of which by the Issuer either has been registered under the Securities Act or is exempt from such registration pursuant to Section 4(1) or Rule 144(k) under the Securities Act, (b) issued or guaranteed by Government National Mortgage Association, Federal National Mortgage Association and Federal Home Loan Mortgage Corporation or (c) issued by an issuer organized outside of the United States and registered in the jurisdiction where the issuer is organized.

Asset-Backed Securities

The Underlying Assets will consist of Asset-Backed Securities, which may include CMBS Securities, RMBS Securities, Automobile Securities, Car Rental Fleet Securities, CDO Securities, Credit Card Securities, Equipment Lease Securities, Small Business Loan Securities and Student Loan Securities, or Synthetic Securities with Reference Obligations as Asset-Backed 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 the Asset-Backed Securities.

Issuers of Asset-Backed Securities are primarily banks and finance companies, captive finance subsidiaries of non-financial corporations or specialized originators such as credit card lenders, or trusts or entities formed by such institutions to issue 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. 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' interests 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

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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, mortgage insurance 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. The multiplicity of roles that may be played by a single firm—within a single securitization or across a number of them—means that credit and operational risk can accumulate into significant concentrations with respect to one or a small number of firms.

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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 mortgages and 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 at greater than 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 GAAP, issuers are required to recognize on their balance sheet an excess yield asset that is based on the fair value of the expected future excess yield; in principle, this value would be based on the net present value of the expected earnings stream from the transaction. Issuers are further required to revalue the asset periodically to take account of changes in fair value that may occur due to interest rates, actual credit losses and other factors relevant to the future stream of excess yield.

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

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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 (a) losses due to defaults by the borrowers in the underlying collateral, (b) the issuer's or servicer's failure to perform and (c) fraud. These 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.

The Underlying Assets are divided into different **"Specified Types "**. The Specified Types are set forth below.

"ABX Tranche Security" means Underlying Assets that are issued by a special purpose issuer as part of an ABX.HE index administered and marketed by Markit Group Limited. The rating of any ABX Tranche Security will be deemed to be the rating associated with the relevant reference index.

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"Automobile Securities" means Underlying Assets 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 purchase of, or from leases of, automobiles, generally having the following characteristics: (1) the loans or leases may have varying contractual maturities; (2) the loans or leases are obligations of numerous borrowers or lessors and accordingly represent a diversified pool of obligor credit risk; (3) 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 (4) 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.

"Car Rental Fleet Securities" means Underlying Assets 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 Underlying Securities) on the cash flow from leases and subleases of vehicles to car rental systems 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.

"CDO Securities" means 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 CDO Securities) on the cash flow from a portfolio of Synthetic Securities, Underlying Securities, Commercial Mortgage-Backed Securities, Residential Mortgage-Backed Securities, bank loan securities, domestic corporate debt securities, high-grade asset-backed securities and trust preferred securities or any combination of the foregoing, generally having the following characteristics: (1) the securities have varying contractual maturities; (2) the securities are obligations of a relatively limited number of obligors or issuers and accordingly represent a relatively undiversified pool of obligor credit risk; (3) repayment thereof can vary substantially from the contractual payment schedule (if any), with early prepayment of individual securities depending on numerous factors specific to the particular issuers or obligors and upon whether, in the case of securities bearing interest at a fixed rate, such securities include an effective prepayment premium; and (4) proceeds from such repayments can for a limited period and subject to compliance with certain eligibility criteria be reinvested in additional securities.

"CMBS Securities" means Underlying 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 Underlying Securities) on the cash flow from (a) a pool of commercial mortgage loans made to finance the acquisition, construction and improvement of properties or (b) the leasing of such properties to corporate tenants. They generally have the following characteristics: (a) the commercial mortgage loans have varying contractual maturities; (b) the commercial mortgage loans are secured by real property purchased or improved with the proceeds thereof; (c) the commercial mortgage loans are obligations of a relatively limited number of obligors and accordingly represent a relatively undiversified pool of obligor credit risk; (d) repayment thereof can vary substantially from the contractual payment schedule (if any), with early prepayment of individual loans

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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.

"Commercial ABS Securities" means Equipment Lease Securities and Small Business Loan Securities; and any other type of Underlying Securities that becomes a Specified Type after the Closing Date, subject to Noteholder consent, as described below and is designated as "Commercial ABS Securities" in connection therewith.

"Consumer ABS Securities" means Automobile Securities, Car Rental Fleet Securities, Consumer Loan Securities, Credit Card Securities and Student Loan Securities; and any other type of Underlying Securities that becomes a Specified Type after the Closing Date, subject to Noteholder consent, as described below and is designated as "Consumer ABS Securities" in connection therewith.

"Consumer Loan Securities" means Underlying 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 Underlying Securities) on the cash flow from balances outstanding under revolving consumer loan accounts, generally having the following characteristics: (1) the accounts have standardized payment terms; (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 Card Securities" means Underlying Assets 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 Underlying Securities) on the cash flow from balances outstanding under revolving consumer credit card accounts, generally having the following characteristics: (1) the accounts have standardized payment terms and require minimum monthly payments; (2) the balances are obligations of numerous borrowers and accordingly represent a 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.

"Emerging Market " means 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 "AA" by Standard & Poor's;

"Equipment Lease Securities" means Underlying Assets 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 Underlying Assets) on the cash flow from leases and subleases of equipment 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.

"Mid-Prime Securities" means Residential Securities that have a FICO Score above 625 and below 700.

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"Non-Subprime Home Equity Loan Underlying Securities" means Underlying Assets (other than Residential B/C Mortgage-Backed Securities and Residential A Mortgage-Backed Securities) that entitle their holders to receive payments that depend primarily on the cash flow from balances (including revolving balances) outstanding under loans or lines of credit to non-subprime borrowers secured by residential real estate (single or two-or-four-family properties) the proceeds of which loans or lines of credit are not generally used to purchase such real estate or to purchase or construct dwellings thereon (or to refinance indebtedness previously used for such purchase or construction), generally having the following characteristics: (1) the balances have standardized payment terms and require minimum monthly payments; (2) the balances are obligations of numerous borrowers and accordingly represent a diversified pool of obligor credit risk; (3) the repayment stream on such balances does not depend upon a contractual payment schedule, with early repayment depending primarily on interest rates and general economic matters; and (4) the loan or line of credit may be secured by residential real estate with a market value (determined on the date of origination of such loan or line of credit) that is less or more than the original proceeds of such loan or line of credit.

"Prime Securities" means Residential Securities that have a FICO Score equal to or above 700.

"Residential A Mortgage-Backed Securities" means Underlying Assets (other than Residential B/C Mortgage-Backed Securities and Non-Subprime Home Equity Loan Underlying Securities) that entitle their holders to receive payments that depend primarily on the cash flow from prime residential mortgage loans secured (on a first priority basis, subject to permitted liens, easements and other encumbrances) by residential real estate (single or two-to-four-family properties) the proceeds of which were 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 standardized payment terms and require minimum monthly payments; (2) the mortgage loans are obligations of numerous borrowers and accordingly represent a diversified pool of obligor credit risk; (3) repayment of such securities can vary substantially from their contractual payment schedules and depends entirely upon the rate at which the mortgage loans are repaid; and (4) the repayment of such mortgage loans is subject to a contractual payment schedule, with early prepayment of individual loans depending on numerous factors specific to the particular obligors and upon whether, in the case of loans bearing interest at a fixed rate, such loans or securities include an effective prepayment premium and with early repayment depending primarily on interest rates and the sale of the mortgaged real estate and related dwelling and generally no penalties for early repayment.

"Residential B/C Mortgage-Backed Securities" means Underlying Assets (other than Residential A Mortgage-Backed Securities and Non-Subprime Home Equity Loan Underlying Securities) that entitle their holders to receive payments that depend primarily on the cash flow from subprime residential mortgage loans secured (on a first priority basis, subject to permitted liens, easements and other encumbrances) by residential real estate (single or two-to-four-family properties) the proceeds of which were 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 standardized payment terms and require minimum monthly payments; (2) the mortgage loans are obligations of numerous borrowers and accordingly represent a diversified pool of obligor credit risk; (3) repayment of such securities can vary substantially from their contractual payment schedules and depends entirely upon the rate at which the mortgage loans are repaid; and (4) the repayment of such mortgage loans is subject to a contractual payment schedule, with early prepayment of individual loans depending on numerous factors specific to the particular obligors and upon whether, in the case of loans bearing interest at a fixed rate, such loans or securities include an effective prepayment premium and with early repayment depending primarily on interest rates and the sale of the mortgaged real estate and related dwelling and generally no penalties for early repayment.

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"Residential Securities" or **"RMBS Securities"** means Residential A Mortgage-Backed Securities, Residential B/C Mortgage-Backed Securities and Non-Subprime Home Equity Loan Underlying Securities.

"Small Business Loan Securities" means Underlying Securities (other than Franchise 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 Underlying Securities) on the cash flow from general purpose corporate loans made to small business concerns, 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 standardized terms; (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. For the purpose of this definition, **"Franchise Securities"** means Underlying 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 Underlying Securities) on the cash flow from (a) a pool of franchise loans made to operators of franchises that provide oil, gasoline, restaurant or food services 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.

"Student Loan Securities" means Underlying Assets 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 Underlying 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 diversified pool of obligor credit risk; (3) the repayment stream on such loans is primarily determined by a contractual payment schedule, with early repayment on such loans predominantly dependent upon interest rates and the income of borrowers following the commencement of amortization; and (4) such loans may be fully or partially insured or reinsured by the United States Department of Education.

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"Sub-Prime Securities" means Residential Securities that have a FICO Score equal to or below 625.

Underlying Assets—Synthetic Securities

The following is a description of the Synthetic Securities. The terms used in this Section "—Synthetic Securities" but not otherwise defined in this Offering Circular have the meanings set forth in the form of Confirmation attached hereto as **Schedule G** in the case of Reference Obligations that are RMBS Securities, in the form of Confirmation attached hereto as **Schedule H** in the case of Reference Obligations that are ABX Tranche Securities, in the form of Confirmation attached hereto as **Schedule I** in the case of Reference Obligations that are CMBS Securities or in the form of Confirmation attached hereto as **Schedule J** in the case of Reference Obligations that are CDO Securities. The terms of any additional Synthetic Security may vary substantially from the terms described below and in the Confirmation. Any Synthetic Security documented under any of the forms of confirmation attached hereto as **Schedule G**, **Schedule H**, **Schedule I** and **Schedule J** is a **"Form-Approved Synthetic Security"** The Issuer may not enter into any Synthetic Security that is not a Form-Approved Synthetic Security unless the Rating Agency Condition is satisfied and, the Issuer may not enter into any Synthetic Security that is not a "pay as you go" swap unless the Issuer, or the Collateral Manager on behalf of the Issuer, requests and receives the recovery rate and rating applicable to such Synthetic Security from Standard & Poor's. For the avoidance of doubt, Offset Transactions and Offsetting Transactions will not be deemed to be Synthetic Securities. Any material change to the terms of an additional Confirmation will be required to satisfy the Rating Condition.

Prior to the Closing Date, the Issuer will have entered into a series of credit default swaps (each a **"Synthetic Security"**) with Deutsche Bank AG (in such role, the **"First Synthetic Security Counterparty"**). Each Synthetic Security relates to a Reference Obligation whereby the Issuer sells credit protection to the related Synthetic Security Counterparty on such Reference Obligation. Each Synthetic Security will be entered into pursuant to a 1992 ISDA Master Agreement (Multicurrency-Cross Border), including the schedule thereto (the **"Master Agreement"**), between the Issuer and a Synthetic Security Counterparty, and a separate confirmation of transaction (a **"Confirmation"**) evidencing the Synthetic Security thereunder. Each Confirmation may evidence several different transactions, each of which is separate and distinct from all others documented under such Confirmation and relates to an individual Reference Obligation that is an Asset-Backed Security. Terms used in this section and not defined herein or in the Confirmations attached hereto as (i) **Schedule G** in the case of Reference Obligations that are RMBS Securities, in the form of Confirmation, (ii) attached hereto as **Schedule H** in the case of Reference Obligations that are ABX Tranche Securities, (iii) in the form of Confirmation attached hereto as **Schedule I** in the case of Reference Obligations that are CMBS Securities or (iv) in the form of Confirmation attached hereto as **Schedule J** in the case of Reference Obligations that are CDO Securities will have the meanings specified in the 2003 ISDA Credit Derivatives Definitions as published by ISDA (the **"Credit Derivatives Definitions"**).

For the avoidance of doubt the Synthetic Securities will exclude any Offsetting Transactions and any Synthetic Security that constitutes a component of the Offset Transactions shall cease to be a Synthetic Security from and including the time the relevant Offsetting Transaction is effective.

"Reference Obligation" means any Asset-Backed Security that, as of the related trade date, satisfies the Eligibility Criteria.

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

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Following the Closing Date and only in accordance with the Eligibility Criteria, the Issuer may (i) enter into additional Synthetic Securities with the First Synthetic Security Counterparty and/or (ii) enter into new Synthetic Securities with different synthetic security counterparties (together with the First Synthetic Security Counterparty, the **"Synthetic Security Counterparties"**) pursuant to a separate Master Agreement and Confirmation; *provided* that after giving effect to any such transaction, the Synthetic Security Collateral Amount equals or exceeds the Required Synthetic Security Collateral Amount. The **"Synthetic Security Collateral Amount"** equals on any date of determination, the amount on deposit in the related Synthetic Security Collateral Account, if any (including the Aggregate Principal/Notional Balance of the Eligible Investments on deposit in such account, but excluding all earnings on such Eligible Investments). The **"Required Synthetic Security Collateral Amount"** equals, with respect to each Synthetic Security Counterparty, on any date of determination, the Aggregate Principal/Notional Balance of all Synthetic Securities entered into with such Synthetic Security Counterparty *minus* the Aggregate Principal/Notional Balance of all Offset Transactions with respect to Synthetic Securities entered into with such Synthetic Security Counterparty. Each Master Agreement entered into with a Synthetic Security Counterparty shall be substantially identical to the Master Agreement entered into between the Issuer and the First Synthetic Security Counterparty prior to closing or, if not substantially identical, shall be approved by the First Synthetic Security Counterparty and each Rating Agency. Each Confirmation entered into with a Synthetic Security Counterparty shall be substantially similar to (w) the form of Confirmation attached hereto as **Schedule G** in the case of Reference Obligations that are RMBS Securities, (x) the form of Confirmation attached hereto as **Schedule H** in the case of Reference Obligations that are ABX Tranche Securities, (y) the form of Confirmation attached hereto as **Schedule I** in the case of Reference Obligations that are CMBS Securities or (z) the form of Confirmation attached hereto as **Schedule J** in the case of Reference Obligations that are CDO Securities or, if not substantially similar, shall be approved by each other Synthetic Security Counterparty and each Rating Agency.

Each Synthetic Security Counterparty has the right in the event of an assignment of the relevant Synthetic Security to reject any replacement for the Issuer. In deciding whether to accept or reject a replacement for the Issuer, the Synthetic Security Counterparty does not have to consider the interests of the Issuer or the Noteholders. If as of any Determination Date, the amount on deposit in the Synthetic Security Collateral Account exceeds the Required Synthetic Security Collateral Amount, such excess amount will be deposited into the Principal Collection Account and deemed to be Principal Proceeds. Under each Synthetic Security, on each Fixed Rate Payer Payment Date, the relevant Synthetic Security Counterparty will be obligated to pay the Fixed Amounts to the Issuer. The First Synthetic Security Counterparty will pay the Fixed Amount to the Issuer as determined by Deutsche Bank AG as calculation agent (together with its permitted successors and assigns in such capacity, the **"Synthetic Security Calculation Agent"**).

In addition, on each Fixed Rate Payer Payment Date, the relevant Synthetic Security Counterparty will be obligated to pay the Additional Fixed Amount, if due, to the Issuer. The Additional Fixed Amount is comprised of Interest Shortfall Reimbursement Payment Amounts, Writedown Reimbursement Payment Amounts and Principal Shortfall Reimbursement Payment Amounts.

Under each Synthetic Security, on each Floating Rate Payer Payment Date, the Issuer will be obligated to pay the applicable Floating Amounts to the related Synthetic Security Counterparty.

Each Synthetic Security Counterparty may, at its option, at any time following the occurrence of a Credit Event under a Confirmation with respect to a RMBS Security, CMBS Security or CDO Security, physically deliver all or a portion of the underlying Reference Obligation to the Issuer (any such delivered Reference Obligation or portion thereof, a **"Delivered Obligation"**) with an Exercise Amount not to

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exceed the Notional Amount of the related Synthetic Security. Upon such physical delivery of any Reference Obligation or portion thereof, the Issuer will be obligated to pay to the related Synthetic Security Counterparty an amount in cash equal to the Physical Settlement Amount. Any such Delivered Obligation will be credited to a securities account maintained with the Trustee subject to the lien of the Indenture. Upon delivery, any Delivered Obligation will be deemed to be an Underlying Asset and will have the same effect on the Eligibility Criteria as the related Synthetic Security prior to the delivery and with a Principal/Notional Balance equal to its outstanding Principal/Notional Balance. **"Notional Amount"** of any Synthetic Security will equal the "Reference Obligation Notional Amount" as defined in such Synthetic Security.

Allocation Procedures. With respect to the Synthetic Securities and Offsetting Transactions, and before any disbursements are made pursuant to "Description of the Notes—Priority of Payments—Interest Proceeds" and "—Principal Proceeds" (i) Floating Payments and other amounts due under any Synthetic Security, (ii) Physical Settlement Amounts, (iii) Principal Payment Amounts, (iv) payments of Additional Fixed Amounts, (v) termination amounts and (vi) Offsetting Transactions will be allocated in accordance with the **"Allocation Procedures"** described below and such amounts will not be applied through the Priority of Payments unless specifically set forth below:

(i) Floating Payments and other amounts due under the Synthetic Securities. If on any Business Day, Floating Payments or any other amounts are due and payable by the Issuer in accordance with the provisions of any Synthetic Security, other than Interest Shortfall Amounts and any termination payments with respect to an early termination or an event of default (the **"Synthetic Security Payment Amount"**), the Trustee shall, on behalf of the Issuer, and pursuant to instruction of the Issuer or Collateral Manager acting on its behalf, subject to the procedures set forth in the Indenture:

(A) withdraw from the Synthetic Security Collateral Account (including, at the Collateral Manager's discretion, by withdrawing the necessary amount from the Investment Agreement) an amount equal to the lesser of (1) the amount credited to the Synthetic Security Collateral Account and (2) the Synthetic Security Payment Amount; and

(B) if the amount withdrawn under (A) above is less than the Synthetic Security Payment Amount, withdraw from the Principal Collection Account an amount equal to the lesser of (1) the amount credited to the Principal Collection Account and (2) the Synthetic Security Payment Amount less the amounts withdrawn pursuant to clause (A) above.

The Trustee, on behalf of the Issuer, and pursuant to instruction of the Issuer or Collateral Manager acting on its behalf, shall pay such proceeds to the relevant Synthetic Security Counterparty in an amount equal to the Synthetic Security Payment Amount.

(ii) Physical Settlement Amount. If on any Business Day, the Physical Settlement Amount for any Delivered Obligation is due and payable by the Issuer to the relevant Synthetic Security Counterparty pursuant to the terms of the related Synthetic Security, the Trustee shall, on behalf of the Issuer, and pursuant to instruction of the Issuer or Collateral Manager acting on its behalf, subject to the procedures set forth in the Indenture:

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(A) withdraw from the Synthetic Security Collateral Account (including, at the Collateral Manager's discretion, by withdrawing the necessary amount from the Investment Agreement) an amount equal to the lesser of (1) the amount credited to the Synthetic Security Collateral Account and (2) the Physical Settlement Amount; and

(B) if the amount withdrawn under (A) above is less than the Physical Settlement Amount, withdraw from the Principal Collection Account an amount equal to the lesser of (1) the amount credited to the Principal Collection Account and (2) the Physical Settlement Amount less the amounts withdrawn pursuant to clause (A) above.

The Trustee, on behalf of the Issuer, and pursuant to instruction of the Collateral Manager, shall pay such proceeds to the relevant Synthetic Security Counterparty in an amount equal to the Physical Settlement Amount.

(iii) Principal Payment Amount. If on any Business Day, there is a Principal Payment Amount with respect to any Reference Obligation under a Synthetic Security, the Trustee shall, on behalf of the Issuer, and pursuant to instruction of the Collateral Manager, subject to the procedures set forth in the Indenture, withdraw from the Synthetic Security Collateral Account (including, at the Collateral Manager's discretion, by withdrawing the necessary amount from the Investment Agreement), an amount equal to the lesser of (1) the amount credited to the Synthetic Security Collateral Account (including the amount that the Issuer can withdraw from the Investment Agreement) and (2) the Principal Payment Amount, and such withdrawn amounts will be deemed to be Principal Proceeds and credited to the Principal Collection Account.

(iv) Payments of Additional Fixed Amounts. If on any Business Day, the Issuer receives Additional Fixed Amounts, the Issuer shall allocate (i) any Interest Shortfall Reimbursement Payment Amount, into the Interest Collection Account as Interest Proceeds and (ii) any Writedown Reimbursement Payment Amount, any Principal Shortfall Reimbursement Payment Amount into the Synthetic Security Collateral Account.

(v) Termination or Novation of a Synthetic Security. If on any Business Day, (A)(x) there is an early termination of a Synthetic Security resulting from a termination event or an event of default pursuant to the terms of the related Synthetic Security, and (y) the Issuer is the Defaulting Party or sole Affected Party (as such term is defined in the related Synthetic Security) and (z) as a result of the termination of the Synthetic Security, a termination payment is due to the Synthetic Security Counterparty or (B) the Issuer novates a Synthetic Security and a payment is due to the replacement synthetic swap counterparty (such amount, the **"Synthetic Security Termination/Novation Payment (Issuer)"**) the Trustee shall, on behalf of the Issuer, and pursuant to written instruction of the Collateral Manager, subject to the procedures set forth in the Indenture:

(A) withdraw from the Synthetic Security Collateral Account (including, at the Collateral Manager's discretion, by withdrawing the necessary amount from the Investment Agreement) an amount equal to the lesser of (1) the

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amount credited to the Synthetic Security Collateral Account and (2) the Synthetic Security Termination/Novation Payment (Issuer); and

(B) if the amount withdrawn under (A) above is less than the Synthetic Security Termination/Novation Payment (Issuer), withdraw from the Principal Collection Account an amount equal to the lesser of (1) the amount credited to the Principal Collection Account and (2) the Synthetic Security Termination/Novation Payment (Issuer) less the amounts withdrawn pursuant to clause (A).

The Trustee, on behalf of the Issuer, shall pay from such proceeds any amounts due to the Synthetic Security Counterparty of the related Synthetic Security (other than with respect to a termination event or event of default where the Synthetic Security Counterparty is the Defaulting Party or Affected Party (as such term is defined in the Synthetic Security)).

(vi) Payment of amounts due under the Offsetting Transactions. Any termination payments due to the Offsetting Transaction Counterparty in connection with the Disposition of an Offsetting Transaction will be made from the termination payment received by the Issuer in respect of the Disposition of the related Offset Transaction (if both the Offset Transaction and related Offsetting Transaction are terminated) or from Principal Proceeds (if only the Offsetting Transaction is terminated). If an Offsetting Transaction and the related Offset Transaction are terminated at the same time, any payments received by the Issuer in connection with the Disposition of an Offsetting Transaction will be netted against payments paid by the Issuer in connection with the related Disposition of the corresponding Offset Transaction.

Floating Payments Payable by the Issuer. With respect to each Synthetic Security executed substantially in the form as shown in **Schedule G**, **Schedule H**, **Schedule I** or in **Schedule J**, the Issuer shall pay to the Synthetic Security Counterparty on each Floating Rate Payer Payment Date the **"Floating Payment"** applicable to such Synthetic Security as calculated by the Synthetic Security Calculation Agent and confirmed by the Trustee, which shall equal the related Writedown Amount, Principal Shortfall Amount or Interest Shortfall Payment Amount, as applicable.

"Writedown Amount" means, with respect to any Reference Obligation Payment Date, the product of (a) the amount of any Writedown on such date, (b) the Applicable Percentage and (c) the Reference Price.

"Principal Shortfall Amount" which means, with respect to a Failure to Pay Principal, the greater of (i) zero; and (ii) the product of (a) the Expected Principal Amount minus the Actual Principal Amount, (b) the Applicable Percentage and (c) the Reference Price. If the Principal Shortfall Amount would not be greater than the Notional Amount immediately prior to the occurrence of a Failure to Pay Principal, then the Principal Shortfall Amount shall be deemed to be equal to the Notional Amount at such time.

"Interest Shortfall Amount" means, with respect to any Reference Obligation Payment Date, an amount equal to the greater of (a) zero and (b) the product of (i) the Expected Interest Amount minus the Actual Interest Amount and (ii) the Applicable Percentage; *provided* that the Interest Shortfall Amount shall be subject to a "Fixed Cap" or other similar provision such that the Interest Shortfall Amount payable

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with respect to an interest period shall be limited to the Fixed Amount payable by the relevant Synthetic Security Counterparty.

"Expected Interest Amount" means, with respect to any Reference Obligation Payment Date, the amount of current interest that would accrue during the related Reference Obligation Calculation Period calculated using the Reference Obligation Coupon on a Principal/Notional Balance of the Reference Obligation equal to 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. Except as provided 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.

"Actual Interest Amount" means, with respect to any Reference Obligation Payment Date, payment by or on behalf of the Issuer of an amount in respect of interest due under Reference Obligation including, without limitation, any deferred interest, defaulted interest, but excluding payments in respect of prepayment penalties or principal (except that the Actual Interest Amount shall include any payment of principal representing capitalized interest) paid to the holder(s) of the Reference Obligation in respect of the Reference Obligation.

"Reference Obligation Calculation Period" means, with respect to each Reference Obligation Payment Date, a period corresponding to the interest accrual period relating to such Reference Obligation Payment Date pursuant to the Underlying Instruments; *provided, however*, that in the case of the first Reference Obligation Calculation Period, such Reference Obligation Calculation Period shall commence on and include the Effective Date of such Synthetic Security.

"Floating Rate Payer Payment Date" has the meaning specified in the related Synthetic Security, but will generally mean the first Fixed Rate Payer Payment Date falling at least two Business Days after delivery of a notice by the Calculation Agent to the Synthetic Security Counterparty and the Issuer or the Synthetic Security Counterparty to the Issuer that the related Floating Amount is due.

Additional Fixed Amounts Payable by the Synthetic Security Counterparty. With respect to each Synthetic Security executed in the form as shown in **Schedule G**, in the form as shown in **Schedule H**, in the form as shown in **Schedule I** or in the form as shown in **Schedule J**, in addition to the Fixed Amounts, the Synthetic Security Counterparty shall pay to the Issuer **"Additional Fixed Amounts"** consisting of:

(a) the payment of an Actual Interest Amount that is greater than the Expected Interest Amount multiplied by the Applicable Percentage subject to the Fixed Cap (such reimbursement amount the **"Interest Shortfall Reimbursement Payment Amount"**);

(b) the Writedown Reimbursement Amount specified by the Synthetic Security Calculation Agent in its notice to the parties or the Issuer in its notice to the Synthetic Security Counterparty of the existence of a Writedown Reimbursement (such reimbursement amount, the **"Writedown Reimbursement Payment Amount"**); *provided* that the aggregate of all Writedown Reimbursement Payment Amounts at any time shall not exceed the aggregate of all Floating Amounts paid by the Issuer in respect of Writedowns; and

(c) the Principal Shortfall Reimbursement Amount specified by the Synthetic Security Calculation Agent in its notice to the parties or the Issuer in its notice to the Synthetic

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Security Counterparty of the existence of a Principal Shortfall Reimbursement (such reimbursement amount, the **"Principal Shortfall Reimbursement Payment Amount"**); *provided* that the aggregate of all Principal Shortfall Reimbursement Payment Amounts at any time shall not exceed the Aggregate of all Floating Amounts paid by the Issuer in respect of occurrences of Failure to Pay Principal.

"Writedown Reimbursement" means, with respect to any day, the occurrence of either (a) a payment in respect of the Reference Obligation in reduction of any prior Writedowns or (b) (i) an increase in the Outstanding Principal Amount of the Reference Obligation to reflect the reversal of any prior Writedowns or (ii) a decrease in the principal deficiency balance or realized loss amounts (howsoever described in the Underlying Instruments) attributable to the Reference Obligation).

"Writedown Reimbursement Amount" means, with respect to any day the product of (a) the sum of all Writedown Reimbursements on that day (b) the Applicable Percentage and (c) the Reference Price.

"Principal Shortfall Reimbursement Amount" means, with respect to any Reference Obligation Payment Date, the product of (a) the amount of any Principal Shortfall Reimbursement, (b) the Applicable Percentage and (c) the Reference Price.

"Principal Shortfall Reimbursement" means, with respect to any Reference Obligation Payment Date, the payment of an amount in respect of the Reference Obligation in or toward the satisfaction of any deferral of or failure to pay principal arising from one or more prior occurrences of a Failure to Pay Principal.

Credit Events. **"Credit Event"** means, solely with respect to Reference Obligations that are RMBS Securities, with respect to any Reference Obligation, the occurrence of a:

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

(ii) **"Writedown"**, means the occurrence at any time on or after the Effective Date of: (i) (A) a writedown or applied loss (however described in the Underlying Instruments) resulting in a reduction in the Outstanding Principal Amount (other than as a result of a scheduled or unscheduled payment of principal); or (B) the attribution of a principal deficiency or realized loss (howsoever described in the Underlying Instruments) to the Reference Obligation resulting in a reduction of the current interest payable on the Reference Obligation; or (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;

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(iii) **"Distressed Ratings Downgrade"**, which means that the Reference Obligation, on any date of determination:

(a) if publicly rated by Moody's,

(i) is downgraded to "Caa2" or below by Moody's or

(ii) has the rating assigned to it by Moody's withdrawn and, in each case, not reinstated within five (5) Business Days of such downgrade or withdrawal; *provided*, if such Reference Obligation was assigned a public rating of "Baa3" or higher by Moody's immediately prior to the occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "Caa1" by Moody's within three (3) calendar months of such withdrawal; or

(b) if publicly rated by Standard & Poor's,

(i) is downgraded to "CCC" or below by Standard & Poor's or

(ii) has the rating assigned to it by Standard & Poor's withdrawn and, in each case, not reinstated within five (5) Business Days of such downgrade or withdrawal; *provided*, if such Reference Obligation was assigned a public rating of "BBB-" or higher by Standard & Poor's immediately prior to the occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "CCC+" by Standard & Poor's within three (3) calendar months of such withdrawal; or

(c) if publicly rated by Fitch Ratings Inc. (**"Fitch"**),

(i) is downgraded to "CCC" or below by Fitch or

(ii) has the rating assigned to it by Fitch withdrawn and, in each case, not reinstated within five (5) Business Days of such downgrade or withdrawal; *provided*, however, if such Reference Obligation was assigned a public rating of "BBB-" or higher by Fitch immediately prior to the occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "CCC+" by Fitch within three (3) calendar months of such withdrawal.

"Credit Event" means, solely with respect to Reference Obligations that are CMBS Securities, with respect to any Reference Obligation, the occurrence of a Failure to Pay Principal or a Writedown.

"Credit Event" means, solely with respect to Reference Obligations that are CDO Securities, with respect to any Reference Obligation, the occurrence of a Failure to Pay Principal, a Writedown, a Distressed Ratings Downgrade or a Failure to Pay Interest.

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"Failure to Pay Interest" means the occurrence of an Interest Shortfall Amount or Interest Shortfall Amounts (calculated on a cumulative basis) in excess of the relevant Payment Requirement.

Downgrade of the Synthetic Security Counterparties. If a Synthetic Security Counterparty or its guarantor fails to maintain certain rating levels described in the Schedule to the ISDA Master Agreement, such Synthetic Security Counterparty may be required to post collateral, obtain a guaranty from a guarantor with the required rating, or assign its rights and obligations under each related Synthetic Security to a replacement synthetic security counterparty satisfying the ratings requirements specified by each of the Rating Agencies for the synthetic security counterparty and, if the Synthetic Security Counterparty does not, within thirty (30) days of such failure (or where the Synthetic Security Counterparty fails to maintain certain lower rating levels described in the Schedule to the ISDA Master Agreement, it does not, within 10 days of such failure) take such action, the Issuer will be permitted to terminate each such Synthetic Security.

If and to the extent that the Synthetic Security Counterparty posts collateral to secure its obligations under the related Synthetic Security due to failure to maintain certain rating levels described in the Schedule to the ISDA Master Agreement, the Trustee shall establish a Synthetic Security Issuer Account. The Trustee shall credit to the Synthetic Security Issuer Account all amounts that are required to secure the obligations of the Synthetic Security Counterparty. Except for investment earnings, the Synthetic Security Counterparty shall not have any legal, equitable or beneficial interest in the related Synthetic Security Issuer Account other than in accordance with the Indenture, the applicable Synthetic Security and applicable law.

Governing Law. Each Synthetic Security will state that it will be governed by, and will be construed in accordance with, the laws of the State of New York without regard to any conflicts of laws principle. Each of the Issuer and the Synthetic Security Counterparty will be required to submit to the jurisdiction of the New York courts in connection with each Synthetic Security, and the Issuer is expected to appoint CT Corporation System to accept service of process on its behalf.

Investments in Synthetic Securities present risks in addition to those associated with other types of Underlying Assets. See "Risk Factors—Nature of the Underlying Assets" and "—Synthetic Securities".

Offsetting Transactions

General. The Issuer may from time to time, enter into credit default swaps with one or more Offsetting Transaction Counterparties, to the extent required in order to hedge all or part of its credit exposure (determined as set out below) to one or more obligors under Synthetic Securities (each such transaction, as **"Offsetting Transaction"**). The Offsetting Transaction Counterparty in respect of an Offsetting Transaction must be the same entity as the Synthetic Security Counterparty under the Synthetic Security being hedged. In the event that any such Offsetting Transaction is entered into in respect of all or part of a Synthetic Security, such Synthetic Security (or part thereof) will no longer be considered a Synthetic Security (the notional amount of such Synthetic Security so offset, the **"Offset Transaction"**).

The notional amount of an Offsetting Transaction may not exceed the notional amount of the respective Synthetic Security. The purpose of the Offset Transaction is to hedge all or part of the Issuer's credit exposure. In the reasonable judgment of the Collateral Manager acting on behalf of the Issuer, such Offsetting Transaction must hedge the Issuer's risk of loss (in whole or in part) with respect to the relevant Synthetic Security and the Offsetting Transaction must relate to the same Reference Obligation and provide for all obligations thereunder to have substantially the same characteristics as obligations specified in such Synthetic Security (other than premium payable).

Following an event of default or termination event with respect to an Offset Transaction, the related Offsetting Transaction will be required to terminate. An Offsetting Transaction may be terminated without termination of the related Offset Transaction only if (i) any termination payments due from the Issuer in respect of such termination will be paid from Principal Proceeds, (ii) such termination (and therefore the reconversion of the relevant Offset Transaction into a Synthetic Security) complies with all conditions applicable to the acquisition of an Underlying Asset and (iii) there are funds in the Principal Collection Account to adequately collateralize the Synthetic Security that the relevant Offset Transaction reconverts to as a result of the termination of the Offsetting Transaction.

The fixed amounts payable with respect to an Offsetting Transaction must be less than or equal to the fixed amounts payable with respect to the related Offset Transaction and in certain circumstances the Issuer may be required to make an upfront payment to the Offsetting Transaction Counterparty. Any initial payments made by the Issuer to the Offsetting Transaction Counterparty in connection with the entry into an Offsetting Transaction shall be made from Principal Proceeds. The difference between the Fixed Amount received with respect to an Offset Transaction and the Fixed Amount paid on the Offsetting Transaction shall be considered Principal Proceeds. Offsetting Transactions shall be limited to an aggregate notional amount equal to 20% of the Net Outstanding Underlying Asset Balance as of the Closing Date. For the avoidance of doubt, if there are not sufficient funds available in the Principal Collection Account for the Issuer to make any initial payment required to be paid by the Issuer in connection with its entry into an Offsetting Transaction, the Issuer may not enter into such Offsetting Transaction.

An Offsetting Transaction may only hedge a component in the related Offset Transaction that prior to such offset was a Synthetic Security. For the avoidance of doubt hedging an Offset Transaction with additional Offsetting Transactions is not allowed.

Any payments received by the Issuer under an Offsetting Transaction that is a component of an Offset Transaction will be netted against payments paid by the Issuer under the opposite component. An Offsetting Transaction must be Immediately Disposed if the related Offset Transaction is Disposed.

The acquisition of any Offsetting Transaction will be subject to the Rating Agency Condition except where such Offsetting Transaction is a Form-Approved Synthetic Security. The fixed amount payable under any Offsetting Transaction entered into by the Issuer will be paid on an ongoing basis from Interest Proceeds. The amounts released from the Synthetic Security Collateral Account by virtue of the entry of the Issuer into any Offsetting Transaction will be constrained by the same conditions applicable to Disposition Proceeds received in respect of Dispositions of Underlying Assets.

Upon the occurrence of a Credit Event under an Offsetting Synthetic Transaction, the Physical Settlement Amount or any cash settlement amount receivable by the Issuer will be paid into the Principal Collection Account, except to the extent that such amounts are offset against any amount payable by the Issuer.

Notwithstanding anything to the contrary herein:

(1) Offset Transactions and the related Offsetting Transactions will not be considered Assets for purposes of the Collateral Quality Tests; and

(2) for the purposes of the Eligibility Criteria, neither the Offset Transactions nor the Offsetting Transactions will be considered.

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Governing Law. Each Offsetting Transaction will state that it will be governed by, and will be construed in accordance with, the laws of the State of New York without regard to any conflicts of laws principle. Each of the Issuer and the Offsetting Transaction Counterparty will be required to submit to the jurisdiction of the New York courts in connection with each Offsetting Transaction, and the Issuer is expected to appoint CT Corporation System to accept service of process on its behalf.

The Collateral Quality Tests

The Collateral Quality Tests will be used to establish that the characteristics of the Issuer's portfolio on the Closing Date satisfy certain threshold levels and, following the Closing Date, to determine whether trading of the Underlying Assets is permitted. The **"Collateral Quality Tests"** are the Standard & Poor's Minimum Weighted Average Recovery Rate Test, the Moody's Asset Correlation Test, the Moody's Minimum Weighted Average Recovery Rate Test, the Moody's Weighted Average Rating Factor Test, the Weighted Average Coupon Test and the Weighted Average Spread Test described below.

Measurement of the degree of compliance with the Collateral Quality Tests will be required on the Closing Date and on each Measurement Date. For purposes of the Weighted Average Coupon Test and Weighted Average Spread Test, a Synthetic Security will be included as an Underlying Asset having the characteristics of the Synthetic Security and not of the related Reference Obligation. A failure by the Issuer to satisfy a Collateral Quality Test will not result in an Event of Default under the Indenture.

Ratings of Underlying Assets. The **"Standard & Poor's Rating"** of any Underlying Asset will be determined as described on **Schedule B** hereto. The **"Moody's Rating"** of any Underlying Asset will be determined as described on **Schedule C** hereto.

Standard & Poor's Minimum Weighted Average Recovery Rate Test. The **"Standard & Poor's Minimum Weighted Average Recovery Rate Test"** will be satisfied on the Closing Date or any Measurement Date if the Standard & Poor's Weighted Average Recovery Rate is greater than or equal to

(a) with respect to the Class A-1a Notes, 30.96%,

(b) with respect to the Class A-1b Notes, 30.96%,

(c) with respect to the Class A-2 Notes, 30.96%,

(d) with respect to the Class B Notes, 35.77%,

(e) with respect to the Class C Notes, 41.74%,

(f) with respect to the Class D Notes, 48.62% and

(g) with respect to the Class E Notes, 55.74%.

The **"Standard & Poor's Weighted Average Recovery Rate"** is the number obtained by *summing* the products obtained by *multiplying* the Principal/Notional Balance of each Underlying Asset by its Standard & Poor's Applicable Recovery Rate, *dividing* such sum by the Aggregate Principal/Notional Balance of all such Underlying Assets, *multiplying* the result by 100 and rounding up to the first decimal place. The "Standard & Poor's Applicable Recovery Rate" means, with respect to any Underlying Asset, an amount equal to the percentage for such Underlying Asset (which shall mean with respect to a Synthetic Security, the related Reference Obligation) set forth in the Standard & Poor's Recovery Matrix attached as **Schedule D** in (a) the applicable table, (b) the row in such table opposite the Standard & Poor's Rating of such Underlying Asset as of the date of issuance of such Underlying Asset and (c)(i) for

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purposes of determining the Standard & Poor's 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, the column in such table below the current rating of the most senior Class of Notes outstanding.

Standard & Poor's CDO Evaluator. The **"Standard & Poor's CDO Evaluator"** means the dynamic, analytical computer model developed by Standard & Poor's and used to estimate default risk of Underlying Assets and provided to the Collateral Manager and the Trustee on or before the Closing Date, as it may be modified by Standard & Poor's from time to time and provided to the Collateral Manager and the Trustee following the Closing Date.

Moody's Asset Correlation Test. The **"Moody's Asset Correlation Test"** means a test which will be satisfied as of the Closing Date or any Measurement Date if the Moody's Correlation Factor is equal to or less than 23.06%; *provided* that a single-obligation Synthetic Security will be included as an Asset-Backed Security having the characteristics of the related Reference Obligation (and the issuer thereof will be deemed to be the related Reference Obligor and not the Synthetic Security Counterparty). For the purpose of this test, the number of assets is 80.

"Moody's CDOROM™ Model" means the licensed Moody's CDOROMTM model in the form provided from time to time by Moody's as updated by Moody's as notified to the Collateral Manager.

"Moody's Correlation Factor" means the result labeled "Correlation" of the Moody's CDOROM™ Model calculation.

Moody's Minimum Weighted Average Recovery Rate Test. The **"Moody's Minimum Weighted Average Recovery Rate Test"** will be satisfied as of the Closing Date or any Measurement Date if the Moody's Weighted Average Recovery Rate is greater than or equal to 24.20%.

The **"Moody's Weighted Average Recovery Rate"** is the number obtained by *summing* the products obtained by *multiplying* the Principal/Notional Balance of each Underlying Asset (excluding any Defaulted Asset) by its applicable recovery rate (determined for purposes of this definition in accordance with **Schedule E**), *dividing* such sum by the Aggregate Principal/Notional Balance of all such Underlying Assets, *multiplying* the result by 100 and rounding up to the first decimal place.

Moody's Weighted Average Rating Factor Test. The **"Moody's Weighted Average Rating Factor Test"** will be satisfied as of the Closing Date or any Measurement Date if the Moody's Weighted Average Rating Factor of the Underlying Assets is equal to a numerical value of not more than 665.

The **"Moody's Weighted Average Rating Factor"** is the number determined by *dividing:*

(a) the summation of the series of products obtained for any Underlying Asset that is not a Defaulted Asset, by *multiplying* (i) the Principal/Notional Balance of each such Underlying Asset by (ii) its respective Moody's Rating Factor, by

(b) the sum of the Aggregate Principal/Notional Balance of all Underlying Assets that are not Defaulted Securities.

Weighted Average Coupon Test. The **"Weighted Average Coupon Test"** will be satisfied on the Closing Date or any Measurement Date if the Weighted Average Coupon is greater than or equal to the percentage specified in the table below with respect to such date.

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From	To	WAC
June 2007 Distribution Date	September 2007 Distribution Date	5.25%
December 2007 Distribution Date	September 2008 Distribution Date	5.25%
December 2008 Distribution Date	September 2009 Distribution Date	5.25%
December 2009 Distribution Date	September 2010 Distribution Date	5.25%
December 2010 Distribution Date	September 2011 Distribution Date	5.25%
December 2011 Distribution Date	September 2012 Distribution Date	5.25%
December 2012 Distribution Date	September 2013 Distribution Date	5.25%
December 2013 Distribution Date	September 2014 Distribution Date	5.25%
December 2014 Distribution Date	September 2015 Distribution Date	5.25%
December 2015 Distribution Date	September 2016 Distribution Date	5.10%
December 2016 Distribution Date	September 2017 Distribution Date	5.10%
December 2017 Distribution Date	September 2018 Distribution Date	5.10%
December 2018 Distribution Date	September 2019 Distribution Date	5.10%
December 2019 Distribution Date	Thereafter	5.10%

The **"Weighted Average Coupon"** is the number (rounded up to the next 0.01%) obtained by (i) summing the products obtained by *multiplying* (A) the current interest rate on each Underlying Asset that is a Fixed Rate Security (excluding all Defaulted Securities and Written Down Securities) by (B) the Principal/Notional Balance of each such Underlying Asset and (ii) *dividing* such sum by the Aggregate Principal/Notional Balance of all Underlying Assets that are Fixed Rate Securities (excluding all Defaulted Securities and Written Down Securities).

Weighted Average Spread Test. The **"Weighted Average Spread Test"** will be satisfied as of the Closing Date or any Measurement Date if the Weighted Average Spread is greater than or equal to the percentage specified in the table below with respect to such date.

From	To	WAS
June 2007 Distribution Date	September 2007 Distribution Date	2.20%
December 2007 Distribution Date	September 2008 Distribution Date	2.18%
December 2008 Distribution Date	September 2009 Distribution Date	2.17%
December 2009 Distribution Date	September 2010 Distribution Date	1.95%
December 2010 Distribution Date	September 2011 Distribution Date	1.80%

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From	To	WAS
December 2011 Distribution Date	September 2012 Distribution Date	1.57%
December 2012 Distribution Date	September 2013 Distribution Date	1.33%
December 2013 Distribution Date	September 2014 Distribution Date	1.26%
December 2014 Distribution Date	September 2015 Distribution Date	1.15%
December 2015 Distribution Date	September 2016 Distribution Date	1.00%
December 2016 Distribution Date	September 2017 Distribution Date	1.00%
December 2017 Distribution Date	September 2018 Distribution Date	0.90%
December 2018 Distribution Date	September 2019 Distribution Date	0.85%
December 2019 Distribution Date	Thereafter	0.80%

The **"Weighted Average Spread"** is the number (rounded up to the next 0.01%) obtained by (a) summing the products obtained by *multiplying* (i) the spread above the floating rate index at which interest accrues on each Underlying Asset that is a Floating Rate Security or the Fixed Amount applicable to a Synthetic Security (in each case, other than a Defaulted Asset or Written Down Security) as of such date by (ii) the Principal/Notional Balance of such Underlying Asset as of such date, and (b) *dividing* such sum by the Aggregate Principal/Notional Balance of all Underlying Assets that are Floating Rate Securities (excluding all Defaulted Securities and Written Down Securities).

Weighted Average Life Test. The **"Weighted Average Life Test"** will be satisfied as of the Closing Date or any Measurement Date during any period set forth below if the Weighted Average Life of all Underlying Assets as of such Measurement Date is less than or equal to the number of years set forth in the table below.

On any Measurement Date during the Reinvestment Period	5.0 years
Thereafter	3.0 years

"Weighted Average Life" means, on any Measurement Date with respect to any Underlying Asset, the number obtained by (i) summing the products obtained by multiplying (a) the Average Life at such time of each Underlying Asset (excluding Defaulted Assets) by (b) the Principal/Notional Balance of such Underlying Assets and (ii) dividing such sum by the Aggregate Principal/Notional Balance at such time of all Underlying Assets. For the purpose of this definition, with respect to the Synthetic Securities, calculations will be made with respect to related Reference Obligation.

"Average Life" means on any Measurement Date with respect to any Underlying Asset (provided that, with respect to any Synthetic Security, such determination will be made with respect to the related Reference Obligation), 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 Underlying Asset (other than a Defaulted Asset) (assuming that (A) no collateral defaults or is sold, (B) prepayment of any Underlying Asset during any month occurs (a) at the rate of prepayment assumed at the time of issuance of such Underlying Asset or

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(b) at the prospectus pricing curve or other similar rate as determined by the Collateral Manager in its reasonable business judgment and (C) any clean-up call, auction call or similar redemption of the Underlying Asset occurs in accordance with its terms), and (b) the respective amounts of principal of such distributions by (ii) the sum of all successive distributions of principal on such Underlying Asset (other than a Defaulted Asset).

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Disposition

Underlying Assets may be retired prior to their respective final maturities due to, among other things, the existence and frequency of exercise of any optional or mandatory redemption features of such Underlying Assets. In addition, pursuant to the Indenture and so long as no Event of Default has occurred and is continuing and subject to the conditions set forth in paragraphs (1) through (5) in the section "*Disposition of Underlying Assets*" below, the Collateral Manager may Dispose of any (i) Defaulted Asset, (ii) Equity Security, (iii) Credit-Risk Asset, (iv) Credit Improved Asset, (v) other Underlying Assets Disposed of pursuant to paragraph (4) below and (vi) any Underlying Asset that is subject to withholding as described below.

"**Disposition**" means one of the following:

(i) in the case of any Asset-Backed Security, Equity Security, Defaulted Asset, Written Down Security or Eligible Investment, the sale thereof by the Collateral Manager, acting on behalf of the Issuer;

(ii) in the case of any Synthetic Security, the termination or novation thereof by agreement between the parties thereto; or

(iii) in respect of any Underlying Asset, the entry by the Issuer into an Offsetting Transaction in respect of such Underlying Asset.

References to "Dispose" and "Disposed" will be construed accordingly.

"**Disposition Proceeds**" means:

(i) in the case of any Asset-Backed Security, Equity Security, Eligible Investment, Defaulted Asset or Written Down Security, the net proceeds of sale by agreement between the parties thereto, the amounts received by the Issuer from the applicable counterparty, excluding any amounts included in such proceeds that represent accrued and unpaid interest save to the extent that such amounts are designated as Principal Proceeds by the Collateral Manager, acting on behalf of the Issuer, in connection with such sale; or

(ii) in the case of any Synthetic Security that is terminated or novated by agreement between the parties thereto:

(a) solely for the purposes of applying paragraphs (1) through (5) in the section "Disposition of Assets" below, an amount equal to the Principal/Notional Balance thereof, *plus* or *minus* any mark-to-market amounts payable or received by the Issuer upon such termination or novation; and

(b) in all other cases, any mark-to-market amounts payable or received by the Issuer upon such termination or novation.

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Disposition of Underlying Assets

Defaulted Assets and Equity Securities

(1) Subject to the provisions of the immediately following sentence, the Collateral Manager on behalf of the Issuer, may Dispose of any Underlying Asset that the Collateral Manager, acting on behalf of the Issuer, determines to be (and which the Collateral Manager certifies in writing to the Trustee that it has determined to be) a Defaulted Asset or an Equity Security; it being agreed in the Indenture, however, that notwithstanding any of the foregoing, (A) the Issuer will be obligated to complete the Disposition of any Defaulted Asset (i) within three years of the date on which it was so determined to be a Defaulted Asset or (ii) if applicable, within three years of such later date on which such Defaulted Asset may first be Disposed of in accordance with its terms or under applicable law; (B) the Issuer will be obligated to complete the Disposition of any Equity Security received in exchange for a Defaulted Asset (i) within one year of the date on which the related Underlying Asset was so determined to be a Defaulted Asset or (ii) if applicable, within one year of such later date on which such Equity Security may first be Disposed of in accordance with its terms or under applicable law; and (C) the Issuer will be obligated to complete the Disposition of any other kind of Equity Security (I) within five Business Days of the Issuer's receipt thereof or (ii) if applicable, within five Business Days of any later date on which such Equity Security may first be Disposed of in accordance with its terms or under applicable law. The Disposition Proceeds in respect of the Disposition of a Defaulted Asset may not be reinvested in Underlying Assets unless (i) each Coverage Test is passing, (ii) each Collateral Quality Test is passing, (iii) 100% of the amount of such Disposition Proceeds are reinvested and (iv) such Disposition Proceeds are reinvested during the Reinvestment Period.

Credit-Risk Assets

(2) The Collateral Manager, on behalf of the Issuer, may Dispose of any Underlying Asset that the Collateral Manager, acting on behalf of the Issuer, determines to be (and which the Collateral Manager certifies in writing to the Trustee that it has determined to be) a Credit-Risk Asset and, if applicable, to acquire additional Underlying Assets in accordance with clause (B) below. The Collateral Manager may not direct the Trustee to Dispose of any Underlying Asset that it determines to be a Credit-Risk Asset unless, in connection with the Disposition of such Credit-Risk Asset, the Collateral Manager will certify in writing to the Trustee that:

(A) at the direction of the Collateral Manager, the Disposition Proceeds arising from the Disposition of such Credit-Risk Asset shall be transferred to the Principal Collection Account to be applied in accordance with the Priority of Payments; *provided that* such Disposition Proceeds may not be reinvested, or

(B) the Collateral Manager believes that the Issuer will be able to reinvest the Disposition Proceeds arising from the Disposition of such Credit-Risk Asset, within 90 days after such Credit-Risk Asset is Disposed of, in one or more additional Asset-Backed Securities or Synthetic Securities having an Aggregate Principal/Notional Balance that, together with accrued interest thereon, is at least equal to the Disposition Proceeds arising from the Disposition of such Credit-Risk Asset being Disposed of

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and the Collateral Manager believes that after giving effect to such Disposition and the subsequent acquisition, the level of each of the Collateral Quality Tests and Eligibility Criteria, if failing, will be maintained or improved as compared to the test levels prior to such Disposition and subsequent acquisition;

provided however that after the Reinvestment Period, the Issuer may not Dispose of a Credit-Risk Asset and acquire one or more additional Underlying Assets pursuant to this paragraph unless, *additionally*,

(i) the Collateral Quality Tests are in compliance,

(ii) the Underlying Asset proposed to be acquired shall have a Moody's Rating and a Standard & Poor's Rating at least equal to the Moody's Rating and the Standard & Poor's Rating respectively of the Credit-Risk Asset to be Disposed,

(iii) the weighted average life of the Underlying Asset(s) proposed to be acquired following such Disposition shall be less than or equal to the weighted average life of the Credit-Risk Asset proposed to be Disposed; provided however, the Issuer may Dispose of a Credit-Risk Asset with a weighted average life less than the weighted average life of the Underlying Asset(s) proposed to be acquired following such Disposition if (A) the weighted average life of the Underlying Asset(s) proposed to be acquired following such Disposition shall be no more than two years greater than the weighted average life of the Credit-Risk Asset to be Disposed, (B) the Aggregate Principal/Notional Balance of all Credit-Risk Assets Disposed pursuant to this proviso does not exceed 25% of the Aggregate Principal Notional Balance of all Underlying Assets as of the Closing Date and (C) the date of such Disposition is no later than the date that is three years after the end of the Reinvestment Period and

(iv) (A) all Coverage Tests are satisfied prior to such Disposition, (B) the Collateral Manager believes that, after giving effect to such Disposition and the subsequent acquisition described in this paragraph all Coverage Tests will be satisfied and the level of each Coverage Test will be at least equal to its level prior to such Disposition and (C) the level of the Class D Overcollateralization Test is at least equal to 107.62%.

Credit-Improved Assets

(3) The Collateral Manager, on behalf of the Issuer, may Dispose of any Underlying Asset that the Collateral Manager, acting on behalf of the Issuer, determines to be (and which the Collateral Manager certifies in writing to the Trustee that it has determined to be) a Credit Improved Asset and, if applicable, to acquire additional Underlying Assets in accordance with clause (B) below. The Collateral Manager may not direct the Trustee to Dispose of any Underlying Asset that it determines to be a Credit-Improved Asset unless,

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in connection with the Disposition of such Credit-Improved Asset, the Collateral Manager will certify in writing to the Trustee that:

(A) at the direction of the Collateral Manager, the Disposition Proceeds arising from the Disposition of such Credit-Improved Asset shall be transferred to the Principal Collection Account to be applied in accordance with the Priority of Payments; *provided that* (i) such Disposition Proceeds may not be reinvested and (ii) such Disposition Proceeds must be at least equal to the par value of the Credit-Improved Asset Disposed, or

(B) the Collateral Manager believes that the Issuer will be able to reinvest the Disposition Proceeds arising from the Disposition of such Credit-Improved Asset, within 60 days after such Credit-Improved Asset is Disposed of, in one or more additional Asset-Backed Securities or Synthetic Securities having an Aggregate Principal/Notional Balance at least equal to the Aggregate Principal/Notional Balance of the Credit-Improved Asset to be Disposed, and the Collateral Manager believes that after giving effect to such Disposition and the subsequent acquisition, the level of each of the Collateral Quality Tests, Coverage Tests and Eligibility Criteria, if failing, will be maintained or improved as compared to the test levels prior to such Disposition and subsequent acquisition;

provided however that after the Reinvestment Period, the Issuer may not Dispose of a Credit-Improved Asset and acquire another Underlying Asset pursuant to this paragraph unless, *additionally*,

(i) the Collateral Quality Tests are in compliance,

(ii) the Underlying Asset proposed to be acquired shall have a Moody's Rating and a Standard & Poor's Rating at least equal to the Moody's Rating and the Standard & Poor's Rating, respectively, of the Credit-Improved Asset to be Disposed,

(iii) the weighted average life of the Underlying Asset(s) proposed to be acquired following such Disposition shall be less than or equal to the weighted average life of the Credit-Improved Asset proposed to be Disposed; provided however, the Issuer may Dispose of a Credit-Improved Asset with a weighted average life less than the weighted average life of the Underlying Asset(s) proposed to be acquired following such Disposition if (A) the weighted average life of the Underlying Asset(s) proposed to be acquired following such Disposition shall be no more than two years greater than the weighted average life of the Credit-Improved Asset to be Disposed, (B) the Aggregate Principal/Notional Balance of all Credit-Improved Assets Disposed pursuant to this proviso does not exceed 25% of the Aggregate Principal Notional Balance of all Underlying Assets as of the Closing Date and (C) the date of such Disposition is no

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later than the date that is three years after the end of the Reinvestment Period and

(iv) (A) all Coverage Tests are satisfied prior to such Disposition, (B) the Collateral Manager believes that, after giving effect to such Disposition and the subsequent acquisition described in this paragraph all Coverage Tests will be satisfied and the level of each Coverage Test will be at least equal to its level prior to such Disposition and (C) the level of the Class D Overcollateralization Test is at least equal to 107.62%.

Discretionary Trading

(4) At any time during the Reinvestment Period, the Collateral Manager, on behalf of the Issuer, may Dispose of (and acquire if applicable) any Underlying Asset if, in connection with the Disposition of such Underlying Asset and the acquisition of another Underlying Asset, as applicable, the Collateral Manager shall certify in writing to the Trustee that:

(i) the Collateral Manager believes in good faith that Disposition Proceeds relating to such Underlying Asset can be reinvested within 60 days after the Disposition of such Underlying Asset in one or more additional Underlying Assets such that the Aggregate Principal/Notional Balance of such additional Underlying Assets is greater than or equal to the Principal/Notional Balance of the Underlying Asset to be so Disposed,

(ii) the Aggregate Principal/Notional Balance of all Underlying Assets Disposed of pursuant to this paragraph during any calendar year (including the period from the Closing Date to the end of calendar year 2007), does not exceed 20% of the Net Outstanding Underlying Asset Balance as of the first day of such period (excluding, for the purposes of such calculation, the Disposition of any Credit-Risk Assets, Credit-Improved Assets, Defaulted Assets, Equity Securities and Withholding Securities and any Underlying Asset Disposed by the entry of the Issuer into an Offsetting Transaction with respect to such Underlying Asset),

(iii) the Collateral Manager believes that after giving effect to such Disposition and the subsequent acquisition, the level of each of the Collateral Quality Tests, Coverage Tests and Eligibility Criteria, if failing, will be maintained or improved as compared to the test levels prior to such Disposition and subsequent acquisition;

(iv) and Moody's has not reduced the long term rating of any Class of Notes below the long term rating in effect on the Closing Date by one or more major rating categories.

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Underlying Assets Subject to Withholding

(5) Notwithstanding any of the limitations prescribed by the preceding paragraphs, if no Event of Default has occurred and is continuing, the Collateral Manager, on behalf of the Issuer, may, at any time, Dispose of any Underlying Asset (regardless of whether such Underlying Asset is or can be characterized as, or determined to be, a Defaulted Asset, an Equity Security, a Credit-Risk Asset or a Credit Improved Asset) if the Collateral Manager shall certify in writing to the Trustee that, based upon an opinion of counsel addressed to the Issuer and the Collateral Manager, the Collateral Manager, acting on behalf of the Issuer, has determined, that such Underlying Asset is, or may become, subject to withholding or other similar taxes.

In addition, during and after the Reinvestment Period, the Issuer, at the direction of the Collateral Manager, may also enter into Offsetting Transactions; *provided that* each Offsetting Transaction will be any Offsetting Transaction will be constrained by the same conditions applicable to Dispositions of Underlying Assets.

Any Disposition of an Underlying Asset will be conducted on an "arm's length basis" for fair market value and in accordance with the requirements of the Management Agreement, and, if effected with the Issuer, the Trustee, a Designated Party or any Affiliate of any of the foregoing, will be effected in a secondary market transaction on terms at least as favorable to the Noteholders as would be the case if such person were not so affiliated; *provided* that, after the Closing Date, the Collateral Manager on behalf of the Issuer shall not direct the Trustee to acquire directly any Asset-Backed Security or a Synthetic Security for inclusion in the Collateral from any account or portfolio for which the Collateral Manager serves as investment advisor or direct the Trustee to Dispose of directly any Underlying Asset to any account or portfolio for which the Collateral Manager serves as investment advisor unless such acquisition or Disposition complies with all material requirements of any applicable laws. The Trustee will have no responsibility to oversee or ensure compliance with the above conditions by the other parties. Any Disposition Proceeds arising out of the Disposition of an Asset-Backed Security that are deposited in the Disposition Proceeds Account to be reinvested in other Underlying Assets within 60 days following such Disposition or 90 days following such Disposition in the case of Credit-Risk Assets. Following such 60 or 90 day period, if such Disposition Proceeds have not been reinvested in any substitute Underlying Asset and remain in the Disposition Proceeds Account, such Disposition Proceeds shall be deposited in the Principal Collection Account and applied in accordance with the Priority of Payments. For the avoidance of doubt, any certification that the Collateral Manager is required to make "in writing" to the Trustee in respect of a Disposition may be made in an email to the Trustee.

During the Reinvestment Period, Principal Proceeds may be reinvested in additional Asset-Backed Securities or additional Synthetic Securities, or used to purchase Eligible Investments, in each case in accordance with the reinvestment criteria set forth under "*—Eligibility Criteria*".

In addition, during the Reinvestment Period, the Collateral Manager may direct the Trustee to apply, by transferring such amount or portion thereof from the Synthetic Collateral Account to the Principal Collection Subaccount, on any Distribution Date to pay the amounts set forth in clauses (1) through (3) under the Principal Proceeds Priority of Payments, to the extent such amounts are not paid with Principal Proceeds listed in clauses (1) through (11) and (14) of the definition thereof and/or on any date as directed by the Issuer to acquire additional Asset-Backed Securities or additional Synthetic Securities, in each case, in accordance with the reinvestment criteria set forth under "*The Accounts—Synthetic Collateral Accounts*" (unless, at the sole and absolute discretion of the Collateral Manager, such amount is to be treated as Principal Proceeds and applied in accordance with the Priority of Payments for Principal Proceeds).

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Certain Definitions

"Aggregate Attributable Amount" means, with respect to any specified Asset-Backed Security and issuers incorporated or organized under the laws of any specified jurisdiction or jurisdictions, (i) the Aggregate Principal/Notional Balance of such Asset-Backed Security multiplied by (ii) the aggregate par amount of collateral securing such Asset-Backed Security issued by issuers so organized divided by (iii) the aggregate par amount of all collateral securing such Asset-Backed Security.

"Average Life" means on any Measurement Date on or after the Closing Date with respect to any Underlying Asset (*provided*, that with respect to any Synthetic Security, such determination will be made with respect to the related Reference Obligation), the quotient obtained by dividing (i) the sum of the products of (a) the number of years (rounded to the nearest one tenth thereof) from such Measurement Date to the respective dates of each successive scheduled distribution of principal of such Underlying Asset (other than a Defaulted Asset) (assuming that (A) no collateral defaults or is sold except those that have already defaulted or been sold, (B) prepayment of any Underlying Asset during any month occurs (x) with respect to an Underlying Asset issued no more than six months prior to such Measurement Date, at the rate of prepayment assumed at the time of issuance of such Underlying Asset and (y) with respect to an Underlying Asset issued more than six months prior to such Measurement Date, at the average rate of prepayment observed over the six months immediately preceding such Measurement Date based on available transaction reporting data (and if such data is unavailable, at the assumed constant prepayment rate or prepayment curve set out in the offering document for such Underlying Asset, as determined by the Collateral Manager in its reasonable business judgment), (C) any clean up call, auction call or similar redemption (but not optional redemption) of the Underlying Asset occurs in accordance with the terms of the relevant Underlying Asset and (D) no optional redemption occurs), and (b) the respective amounts of principal of such scheduled distributions by (ii) the sum of all successive scheduled distributions of principal on such Underlying Asset (other than a Defaulted Asset).

"Credit-Improved Asset" means any Asset-Backed Security or Synthetic Security (in which case such determination will be made with respect to the related Reference Obligation) (excluding in each case the long component of any Offset Transaction) that is in compliance with at least one of the following criteria (the **"Credit-Improved Criteria"**):

(a) during any period which is not a Restricted Trading Period, the Collateral Manager, acting on behalf of the Issuer, has determined in a commercially reasonable manner (which determination may not be called into question as a result of subsequent events) that: (i) the issuer of such Asset-Backed Security or the issuer of the Reference Obligation related to such Synthetic Security, as applicable, in the commercially reasonable judgment of the Collateral Manager, acting on behalf of the Issuer, has shown improved financial results; (ii) the transferor, originator, obligor of or insurer of such Asset-Backed Security or of the Reference Obligation related to such Synthetic Security, as applicable, since the date on which such Asset-Backed Security or Synthetic Security was purchased or entered into, as applicable, by the Issuer has raised significant equity capital or has raised other capital that has improved the liquidity or credit standing of such transferor, originator, obligor or insurer; (iii) in the case of an Asset-Backed Security, there has occurred a significant improvement in the underlying pool of assets or an increase in the level of subordination; or (iv) such Asset-Backed Security or the Reference Obligation related to such Synthetic Security, as applicable, has decreased its spread over the interest rate on the applicable U.S. Treasury Benchmark by an amount exceeding 0.50% for fixed rate assets or by an amount exceeding 0.25% over the relevant rate index for floating rate assets or has increased in price to 102% or more of its original purchase price paid by the Issuer due primarily to credit related reasons as determined by the Collateral Manager, acting on behalf of the Issuer, in each case, since it was acquired by the Issuer; or

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(b) (i) the Collateral Manager, acting on behalf of the Issuer, believes, in the Collateral Manager's commercially reasonable judgement (which belief may not be called into question as a result of subsequent events) that the Underlying Asset or such related Reference Obligation, as applicable, has substantially improved in credit quality and (ii) such Underlying Asset or such related Reference Obligation, as applicable, has been upgraded or put on a watch list for possible upgrade by one or more rating sub-categories by one or more Rating Agencies since the date on which it was acquired or entered into by the Issuer.

"Credit-Risk Asset" means any Underlying Asset with respect to which:

(a) during any period which is not a Restricted Trading Period, its rating has been downgraded, qualified or withdrawn by Standard & Poor's, Moody's or Fitch or has been put on "negative credit watch" or similar status for possible downgrading, qualification or withdrawal from the ratings that were in place as of the date the Issuer purchased such Underlying Asset or in the reasonable business judgment of the Collateral Manager (which judgments shall be based on information reasonably available to the Collateral Manager at the time, including reasonable projections), has a significant risk of declining in credit quality or, over time, becoming a Defaulted Asset or if it is deferring interest or is a Written Down Security; or

(b) during any period which is a Restricted Trading Period, (A) in the reasonable business judgment of the Collateral Manager (which judgments shall be based on information reasonably available to the Collateral Manager at the time, including reasonable projections), has a significant risk of declining in credit quality or, over time, becoming a Defaulted Asset and (B) (i) its rating has been downgraded, qualified or withdrawn by Standard & Poor's, Moody's or Fitch or has been put on "negative credit watch" or similar status for possible downgrading, qualification or withdrawal from the ratings that were in place as of the date the Issuer purchased such Underlying Asset, (ii) has experienced an increase in credit spread over the applicable U.S. Treasury Benchmark, the applicable swap benchmark or the applicable LIBOR by (x) 0.40% or more if the original credit spread (as of the date on which such Underlying Asset was first included in the portfolio) was greater than 1.50% or (y) 0.20% if the original credit spread (as of the date on which such Underlying Asset was first included in the portfolio) was less than or equal to 1.50%, or (iii) it is deferring interest or is a Written Down Security.

"Equity Security" means any equity security which is acquired by the Issuer as a result of the exercise or conversion of an Underlying Asset, in conjunction with the purchase of an Underlying Asset or in exchange for a Defaulted Asset and which does not entitle the holder thereof to receive periodic payments of interest and one or more installments of principal.

"Initial Rating" means (i) with respect to the Class A-1a Notes, Class A-1b Notes and the Class A-2 Notes, "Aaa" by Moody's and "AAA" by Standard & Poor's, (ii) with respect to the Class B Notes, "Aa2" by Moody's and "AA" by Standard & Poor's, (iii) with respect to the Class C Notes, "A2" by Moody's and "A" by Standard & Poor's; (iv) with respect to the Class D Notes, "Baa2" by Moody's and "BBB" by Standard & Poor's, and (v) with respect to the Class E Notes, "Ba1" by Moody's and "BB+" by Standard & Poor's.

"Investment Grade" means a security with a Moody's Rating of at least "Baa3" by Moody's and a Standard & Poor's Rating of at least "BBB-".

"Restricted Trading Period" means each day during which (a) the Moody's rating of the Class A Notes or Class B Notes is one or more subcategories below its Initial Rating, or (b) the Moody's rating of the Class C Notes, the Class D Notes or the Class E Notes is two or more sub-categories below its Initial Rating; unless the holders of a majority in aggregate outstanding principal amount of the Controlling

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Class has directed the Issuer to waive the Restricted Trading Period (which waiver may be rescinded by the Controlling Class at any time that such rating requirement is not satisfied).

An Underlying Asset will be a **"Withholding Security"** if the related trustee or paying agent informs the Issuer, Trustee or Collateral Manager that it intends to withhold, or actually does withhold from payment on such Underlying Asset, amounts in respect of withholding taxes.

"writing" or **"written"** shall include electronic mail.

Notwithstanding anything to the contrary set forth in this section "—Disposition of Underlying Assets," the Issuer will have the right to effect any transaction that has been consented to by holders of Notes evidencing 100% of the aggregate outstanding principal amount of each Class of Notes and by each Preference Shareholder and of which each Rating Agency has been notified.

Eligibility Criteria

During the Reinvestment Period, the Issuer may Dispose of and acquire additional Underlying Assets; *provided* that, after giving effect to such investment, (i) each of the Collateral Quality Tests is satisfied or, if a Collateral Quality Test is not satisfied, the degree of compliance with such Collateral Quality Test would be maintained or improved and (ii) the criteria set forth below (the **"Eligibility Criteria"**) are complied with or, if the Eligibility Criteria will not be complied with, the degree of compliance with the Eligibility Criteria will be maintained or improved. Unless otherwise stated in this section or unless the context clearly otherwise requires, in respect of the Synthetic Securities, (x) any rating criteria and any criteria relating to its status as a "Specified Type" described in this section in respect of such Synthetic Securities will be deemed to relate to the related Reference Obligations, and any quantitative criteria and limits so described will be deemed to apply to the Principal/Notional Balance of the relevant Synthetic Securities and (y) all references to "rated" or "rating" by Standard & Poor's or Fitch in this section, unless otherwise specified or unless the context otherwise requires, shall refer to the long-term, unsecured debt rating assigned by Standard & Poor's or Fitch, as applicable.

With respect to any acquisitions or Disposition of multiple Underlying Assets, that are effected either contemporaneously or no later than 30 days from each other in accordance with the provisions described herein, the Collateral Manager may, in its sole discretion, direct that two or more of such acquisitions or Dispositions of multiple Underlying Assets be treated as a **"Combined Trade"** and, following such designation by the Collateral Manager, compliance with the Collateral Quality Tests and Eligibility Criteria will be measured by determining the aggregate effect of such Combined Trade on the Issuer's level of compliance with the applicable Collateral Quality Tests and Eligibility Criteria rather than considering the effect of each acquisition or Disposition of the related Underlying Assets individually.

The Issuer may also, at the direction of the Collateral Manager, enter into a trading plan (a) pursuant to which the Collateral Manager believes all trades contemplated thereby will be entered into within 20 Business Days, (b) specifying certain (I) amounts received or expected to be received as Principal Proceeds in connection with a Trading Plan, (ii) Underlying Assets related to such Principal Proceeds and (iii) Underlying Assets acquired or intended to be acquired as a result of such Trading Plan, and (c) for which the Collateral Manager believes such plan can be executed according to its terms. Any trading plan satisfying the requirements of clauses (a)-(c), a **"Trading Plan"**. The time period for such Trading Plan will be measured from the earliest trade date to the latest trade date of any such amounts. With respect to any series of trades in which the Issuer commits to purchase, sell or purchase and sell multiple Underlying Assets pursuant to a Trading Plan, compliance with the Eligibility Criteria and the Collateral Quality Tests 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 Eligibility Criteria and

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the Collateral Quality Tests rather than considering the effect of each purchase and sale of such Underlying Assets individually. The Issuer (or the Collateral Manager on its behalf) may enter into a Trading Plan only if (1) there are no other Trading Plans being implemented at such time and that the Collateral Quality Tests and Eligibility Criteria with respect to all previously implemented Trading Plans were in compliance as at the scheduled completion date of such Trading Plans, (2) as evidenced by an officer's certificate of the Collateral Manager (which may be delivered in an email), acting on behalf of the Issuer, delivered to the Trustee on or prior to the earliest event specified in the related Trading Plan, the Eligibility Criteria and the Collateral Quality Tests are expected to be in compliance as of the scheduled completion date of the related Trading Plan, (3) the Aggregate Principal/Notional Balance of all Underlying Assets that are to be Disposed of pursuant to such Trading Plan may not exceed 5% of the Portfolio Balance (each measured as of the earliest trade date) and (4) Standard & Poor's has received a prior written notice of such Trading Plan from the Collateral Manager, acting on behalf of the Issuer. If at any time any Trading Plan that was previously implemented resulted in the deterioration in the Issuer's level of compliance with any of the Eligibility Criteria and the Collateral Quality Tests, other than due to (x) a failure of the Synthetic Security Counterparty or Issuer to comply with any of its payment or delivery obligations to the Issuer or any other default by such counterparty or obligor/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, notice will be provided to Standard & Poor's and the Issuer will be prohibited from entering into any additional Trading Plans 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, acting on behalf of the Issuer, may only specify one Trading Plan per trade date. The Eligibility Criteria will be as follows:

Standard & Poor's or Moody's Rating	1.	The Aggregate Principal/Notional Balance of the acquired Underlying Assets with a Moody's Rating or a Standard & Poor's Rating of below "Baa3" or "BBB-", respectively, shall not exceed 26.1% of the Net Outstanding Underlying Asset Balance as of the Closing Date; provided that any such Underlying Assets shall be RMBS Securities.
Dollar denominated	2.	Such security is Dollar denominated and is not convertible into, or payable in, any other currency.
Single Issue	3.	With respect to the particular Issue being acquired, the Aggregate Principal/Notional Balance of such Issue does not exceed:
		(a) 2.5% of the Net Outstanding Underlying Asset Balance, if such Issue has a Moody's Rating of "Baa3" or higher or a Standard & Poor's Rating of "BBB-" or higher; *provided however* that with respect to up to five such Issues, the Aggregate Principal/Notional Balance of each such Issue may be up to 3.0% of the Net Outstanding Underlying Asset Balance;
		(b) 1.25% of the Net Outstanding Underlying Asset Balance, if such Issue has a Moody's Rating of "Ba1" or less and a Standard & Poor's Rating of "BB+" or less; *provided however* that with respect to up to five such Issues, the

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Aggregate Principal/Notional Balance of each such Issue may be up to 1.5% of the Net Outstanding Underlying Asset Balance.

Single Servicer 4. With respect to the Servicer of the Underlying Asset being acquired, the Aggregate Principal/Notional Balance of all Underlying Assets serviced by such Servicer does not exceed 7.50% of the Net Outstanding Underlying Asset Balance; provided, however, the Aggregate Principal/Notional Balance of all Underlying Assets serviced by such Servicer does not exceed:

(a) 20.0% of the Net Outstanding Underlying Asset Balance, if such Servicer is rated (i) at least "Aa3" or at least "SQ1-" by Moody's, or (ii) at least "AA-" or at least "Strong" by Standard & Poor's or (iii) at least "AA-" or at least "S-1" by Fitch; and

(b) 12.5% of the Net Outstanding Underlying Asset Balance, if such Servicer is rated (i) at least "A3" or at least "SQ2-" by Moody's, or (ii) at least "A-" or at least "Above Average" by Standard & Poor's or (iii) at least "A-" or at least "S-2" by Fitch;

provided that Wells Fargo or its Affiliates may constitute up to 20.0%, Select Portfolio Servicing or its Affiliates may constitute up to 15.0% and Washington Mutual or its Affiliates may constitute up to 15.0%, of the Aggregate Principal/Notional Balance of all Underlying Assets; *provided further* that, regardless of clauses (a), (b) and the first proviso above, two single servicers (other than servicers with a servicer rating of "Weak" by Standard & Poor's) may each constitute up to 15.0% of the Net Outstanding Underlying Asset Balance.

Backed by Obligations of Non-U.S. Obligors 5. The Aggregate Attributable Amount of all Underlying Assets related to obligors organized or incorporated outside the United States does not exceed 5% of the Net Outstanding Underlying Asset Balance; *provided* that for purposes of this paragraph, "obligors" shall mean the obligors on the underlying receivables; *provided further* that the Aggregate Attributable Amount of all Underlying Assets related to

(a) Qualifying Foreign Obligors (including those obligors organized or incorporated in the United Kingdom or Canada) does not exceed 5% of the Net Outstanding Underlying Asset Balance; and

(b) obligors (including obligors organized or incorporated in Emerging Markets) organized or incorporated outside the United States, the United Kingdom and Canada (other than Qualifying Foreign Obligors) does not exceed 0.0% of the Net Outstanding Underlying Asset Balance.

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Consumer ABS Securities	6.	The Aggregate Principal/Notional Balance of all Underlying Assets constituting Consumer ABS Securities does not exceed 15% of the Net Outstanding Underlying Asset Balance, *provided* that the Aggregate Principal/Notional Balance of all Underlying Assets consisting of:
		(a) Automobile Securities does not exceed 7.5% of the Net Outstanding Underlying Asset Balance;
		(b) Car Rental Fleet Securities does not exceed 1.5% of the Net Outstanding Underlying Asset Balance;
		(c) Consumer Loan Securities does not exceed 1.5% of the Net Outstanding Underlying Asset Balance;
		(d) Credit Card Securities does not exceed 7.5% of the Net Outstanding Underlying Asset Balance; and
		(e) Student Loan Securities does not exceed 7.5% of the Net Outstanding Underlying Asset Balance.
Commercial ABS Securities	7.	The Aggregate Principal/Notional Balance of all Underlying Assets constituting Commercial ABS Securities does not exceed 5% of the Net Outstanding Underlying Asset Balance, *provided* that the Aggregate Principal/Notional Balance of all Underlying Assets consisting of:
		(a) Equipment Lease Securities does not exceed 5% of the Net Outstanding Underlying Asset Balance;
		(b) Small Business Loan Securities does not exceed 0% of the Net Outstanding Underlying Asset Balance; and
		(c) Franchise Securities does not exceed 0% of the Net Outstanding Underlying Asset Balance.
CMBS Securities	8.	The Aggregate Principal/Notional Balance of all Underlying Assets that are CMBS Securities shall not exceed 10%, of the Net Outstanding Underlying Asset Balance.
CDO Securities	9.	The Aggregate Principal/Notional Balance of all Underlying Assets that are CDO Securities shall not exceed 10% of the Net Outstanding Underlying Asset Balance; *provided that*
		(a) no CDO Security shall have a Moody's Rating below "Baa3" or a Standard & Poor's Rating below "BBB-" and
		(b) the Aggregate Principal/Notional Balance of all Underlying Assets that are CDO Securities managed by the Collateral Manager shall not exceed 0% of the Net Outstanding Underlying Asset Balance.

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Synthetic Securities	10.	The Aggregate Principal/Notional Balance of all Underlying Assets that are Synthetic Securities that are Investment Grade shall not exceed 65% of the Net Outstanding Underlying Asset Balance.
Fixed Rate Securities	11.	The Aggregate Principal/Notional Balance of all Underlying Assets that are Fixed Rate Securities shall not exceed 6.0% of the Net Outstanding Underlying Asset Balance.
Pure Private Asset-Backed Securities	12.	If such Underlying Asset is a Pure Private Asset-Backed Security, the Aggregate Principal/Notional Balance of all such Underlying Assets does not exceed 5.0% of the Net Outstanding Underlying Asset Balance.
Prime Securities	13.	The Aggregate Principal/Notional Balance of all Underlying Assets that are Prime Securities shall not exceed 15%, of the Net Outstanding Underlying Asset Balance.
ABX Tranche Securities	14.	The Aggregate Principal/Notional Balance of all Underlying Assets that are ABX Tranche Securities shall not exceed 5%, of the Net Outstanding Underlying Asset Balance; provided however, that the Aggregate Principal/Notional Balance of all Underlying Assets that are ABX Tranche Securities of the same tranche shall not exceed 2%, of the Net Outstanding Underlying Asset Balance.
Negative Amortization Securities	15.	The Aggregate Principal/Notional Balance of all Underlying Assets that are Negative Amortization Securities shall not exceed 0%, of the Net Outstanding Underlying Asset Balance.
Interest-Only Securities	16.	The Aggregate Principal/Notional Balance of all Underlying Assets that are Interest-Only Securities shall not exceed 0%, of the Net Outstanding Underlying Asset Balance.
Principal-Only Securities	17.	The Aggregate Principal/Notional Balance of all Underlying Assets that are Principal-Only Securities shall not exceed 0%, of the Net Outstanding Underlying Asset Balance.
Inverse Floating Securities	18.	The Aggregate Principal/Notional Balance of all Underlying Assets that are Inverse Floating Securities shall not exceed 0%, of the Net Outstanding Underlying Asset Balance.
Cap/Corridor Securities	19.	The Aggregate Principal/Notional Balance of all Underlying Assets that are Cap/Corridor Securities shall not exceed 0%, of the Net Outstanding Underlying Asset Balance.
Offsetting Transactions	20.	The aggregate notional amount of all Offsetting Transactions shall not exceed 20% of the Net Outstanding Underlying Asset Balance as of the Closing Date.
Maturity	21.	The legal final maturity of such Underlying Asset is no later than the Stated Maturity; *provided* that up to 10% of the Aggregate Principal/Notional Balance of the Underlying Assets may have a legal final maturity after the Stated Maturity but in no event shall (A) the legal final maturity of any Underlying Asset occur later than five years after the Stated Maturity of the Notes or (B) the expected maturity of any Underlying Asset occur later than the Stated Maturity of the Notes.

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PIK Bonds	22.	The Aggregate Principal/Notional Balance of all Underlying Assets that are PIK Bonds shall not exceed 10% of the Net Outstanding Underlying Asset Balance.
Periodic interest Payments	23.	The Aggregate Principal/Notional Balance of all Underlying Assets that provide for the periodic payment of interest less frequently than quarterly shall not exceed 5% of the Net Outstanding Underlying Asset Balance and the Aggregate Principal/Notional Balance of all Underlying Assets that provide for the periodic payment of interest less frequently than semi-annually shall not exceed 0% of the Net Outstanding Underlying Asset Balance.
Other Eligibility Criteria	24.	Such Underlying Asset is not a Convertible Bond and does not provide for the mandatory conversion or exchange into equity capital at any time.
	25.	Such Underlying Asset is permitted by its terms to be held by, among others, the Issuer or other non U.S. Persons and, if applicable, assigned, participated or otherwise transferred to the Issuer.
	26.	Such Underlying Asset is not an obligation or a Underlying Asset the rating of which from Standard & Poor's includes the subscript "p", "pi", "q", "r" or "t".
	27.	Such Underlying Asset (a) is not a Underlying Asset 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; (b) does not provide for conversion into Margin Stock; and (c) is not a financing by a debtor in possession in any insolvency proceeding.
	28.	Such Underlying Asset does not have a coupon or other payment that is subject to withholding tax, in each case, unless the issuer of the security is required to make "gross up payments" for the total amount of withholding on an after tax basis.
	29.	The acquisition of such Underlying Asset will not cause the Issuer to be subject to entity level taxation.
	30.	If such Underlying Asset is a Step Up Bond, the Aggregate Principal/Notional Balance of all such Underlying Assets does not exceed 5.0% of the Net Outstanding Underlying Asset Balance. If such Underlying Asset is a Step Down Bond, the Aggregate Principal/Notional Balance of all such Underlying Assets does not exceed 5.0% of the Net Outstanding Underlying Asset Balance.
	31.	Such Underlying Asset is not a security that is not eligible under its Underlying Instruments to be purchased by the Issuer and granted to the Trustee.
	32.	Such Underlying Asset is not a floating rate security whose interest rate is inversely related to an interest rate index.

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33. Such Underlying Asset is included in one of the Specified Types; provided that no new Specified Type shall be defined after the Closing Date without the consent of the holders of a majority of the Outstanding Aggregate Amount of each Class of Notes.

34. Such Underlying Asset has a Moody's Rating of "Ba2" or higher and a Standard & Poor's Rating of "BB" or higher.

The Initial Investment Agreement

The information appearing under "Security for the Notes—The Initial Investment Agreement" with respect to the Initial Investment Agreement Provider has been derived from a description thereof provided by the Initial Investment Agreement Provider. The Initial Investment Agreement Provider has reviewed such information, but such information has not been independently verified by the Co-Issuers, the Collateral Manager, the Initial Purchaser, any Interest Rate Swap Counterparty or the Synthetic Security Counterparty.

Amounts on deposit in the Synthetic Security Collateral Account may be invested in Eligible Investments and will initially be invested under an investment agreement, dated as of the Closing Date (such agreement, the **"Initial Investment Agreement,"** and, together with any Replacement Investment Agreement, the **"Investment Agreement"** and amounts so invested, the **"Investment"**), among the Issuer, the Trustee and GE Funding Capital Market Services, Inc., as investment agreement provider (in such capacity, the **"Initial Investment Agreement Provider"**). On the Closing Date, funds in an amount of at least $614,000,000 are expected to be invested as Investments.

Pursuant to the Initial Investment Agreement, the Initial Investment Agreement Provider will be required to pay interest until the Initial Investment Agreement is terminated or terminates by its terms at a floating rate *per annum* equal to three-month LIBOR *minus* 0.035% on the amounts invested thereunder. Interest on the Investment will accrue over each Interest Period and will be payable immediately prior to the Distribution Dates, commencing in June 2007.

On any Business Day of each month, subject to applicable notice requirements specified in the Initial Investment Agreement, the Trustee may make a withdrawal from the Initial Investment Agreement in order to make payments as described under Allocation Procedures.

Immediately prior to the Final Maturity Date, the Trustee (acting pursuant to the Indenture on behalf of the Issuer) will have the right to demand payment in full under the Initial Investment Agreement (if it is then in effect). On the Final Maturity Date of the Notes, all net proceeds from such liquidation and all available cash will be distributed in accordance with the priority of distribution provisions described herein.

The Trustee, subject to the Indenture, will upon the occurrence of an event of default under the Initial Investment Agreement, take actions to enforce the rights of the Issuer under the Initial Investment Agreement and to obtain payment to the Trustee of all amounts due thereunder to the extent required or directed to do so in accordance with the Indenture.

In the event that the financial strength ratings of the guarantor or any replacement guarantor are downgraded below certain thresholds specified in the Initial Investment Agreement, the Initial Investment Agreement Provider is required to perform one or more of the following actions: (i) post collateral, (ii) transfer the Initial Investment Agreement to an entity approved by the Collateral Manager and satisfying the rating requirements (as specified in the Initial Investment Agreement) or (iii) obtain the guarantee of a

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replacement guarantor that satisfies the required financial strength ratings. If within ten Business Days of a ratings event, the Initial Investment Agreement Provider does not remedy the situation by satisfying the relevant requirements of one or more of clause (i), (ii) or (iii) above, then following demand by the Trustee within 30 Business Days of the Initial Investment Agreement Provider's notice of such ratings event, the Initial Investment Agreement Provider will pay the entire balance of the Investment, together with all accrued, unpaid interest and any make-whole amount to the Trustee. Upon any such payment in full, the Initial Investment Agreement shall terminate.

Events of default under the Initial Investment Agreement include a failure by the Initial Investment Agreement Provider to make any payment when due pursuant to the Initial Investment Agreement, certain bankruptcy and insolvency events with respect to the Initial Investment Agreement Provider, a failure by the Initial Investment Agreement Provider to perform, in any material respect, any of its other obligations under the Initial Investment Agreement which continues for at least ten Business Days after receipt of notice thereof. The Issuer is required to provide Standard & Poor's and Moody's notice of the termination of the Initial Investment Agreement following any Event of Default under the Initial Investment Agreement.

Upon the occurrence of an event of default under the Initial Investment Agreement, the Trustee, the Issuer and the Collateral Manager will have the right to declare the entire balance of the Investment and all accrued and unpaid interest to be due and payable immediately and to withdraw such entire balance and unpaid interest. If, as a result of the occurrence of an event of default, the entire balance of the Investment and all unpaid interest are so withdrawn by the Trustee, the Initial Investment Agreement will be terminated on the date of such withdrawal. If an event of default occurs under the Initial Investment Agreement and the Initial Investment Agreement is terminated, any amounts withdrawn by the Issuer in connection therewith may be reinvested in Eligible Investments.

If there is a withdrawal of the funds, then a breakage fee may be payable and the gross amount of interest or principal due may be paid net of the breakage fee.

The Initial Investment Agreement Provider. The Initial Investment Agreement is being provided by GE Funding Capital Market Services, Inc. or the "**Initial Investment Agreement Provider**"). Except for the information contained under this subheading, the Initial Investment Agreement Provider has not been involved in the preparation of, and does not accept responsibility for this Offering Circular.

Proceeds held in the Synthetic Security Collateral Account will be invested by the Trustee in the Initial Investment Agreement with GE Funding Capital Market Services, Inc., New York, New York ("**GEFCMS**"). The payment obligations of GEFCMS under its Investment Agreements are unconditionally guaranteed pursuant to an Amended and Restated Guarantee, dated as of March 16, 2004 (the "**Guarantee**"), of General Electric Capital Corporation ("**GECC**"). GECC is rated "AAA" by Standard & Poor's and "Aaa" by Moody's. Neither the Investment Agreement nor the Guarantee guarantees or otherwise provides for payment of amounts due on the Notes in the event of nonpayment by the Issuer. Holders of the Notes must rely solely upon the Notes for payment of principal and interest thereon. Holders of the Notes shall have no recourse, and shall have no right to assert a claim of any nature whatsoever, against or GECC (or any entity that provides to GECC credit enhancement or the benefit of a liquidity facility) or under the Investment Agreement or the Guarantee. Copies of the Investment Agreement and the Guarantee are on file with the Trustee.

GECC is subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith files reports and other information with the Securities and Exchange Commission (the "**Commission**"). Such reports and other information can be inspected and copied at the Office of the Commission in Washington, D.C.

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The Interest Rate Swap Agreement

After the Closing Date, subject to satisfaction of the Rating Condition, the Issuer may enter into an interest rate swap entered into in accordance with the Indenture (such interest rate swap, together with any replacement therefor or additional swap agreement entered into in accordance with the Indenture, the **"Interest Rate Swap Agreement"**) with Deutsche Bank AG or one of its Affiliates (together with its successors, the **"Initial Interest Rate Swap Counterparty"**. The Initial Interest Rate Swap Counterparty and any additional interest rate swap counterparties, each an **"Interest Rate Swap Counterparty"**). Any Interest Rate Swap Agreement will provide that the Issuer will pay to the relevant Interest Rate Swap Counterparty on each related Distribution Date interest at a fixed rate on a specified notional amount, in exchange for which the Interest Rate Swap Counterparty will pay to the Issuer interest on such notional amount at a rate equal to three-month LIBOR for the related calculation period. The Interest Rate Swap Counterparty will satisfy the ratings requirements specified by each of the Rating Agencies for the Interest Rate Swap Counterparty.

Any Interest Rate Swap Agreement will provide that, for each Distribution Date prior to the termination of such Interest Rate Swap Agreement, the Interest Rate Swap Counterparty will pay to the Issuer a quarterly floating amount equal to the product of:

- the three-month LIBOR rate for the relevant quarterly calculation period;
- the specified hedge notional amount for the relevant quarterly calculation period; and
- the quotient of the actual number of days in that period *divided* by 360.

In exchange for the floating amounts due from the Interest Rate Swap Counterparty, and subject to the payment netting provisions of the Interest Rate Swap Agreement, the Issuer will pay to the Interest Rate Swap Counterparty, for each Distribution Date prior to the termination of the Interest Rate Swap Agreement, a quarterly fixed amount equal to the product of:

- fixed swap rate for the relevant quarterly calculation period;
- the specified swap notional amount for the relevant quarterly calculation period; and
- the quotient of 30 over 360, calculated quarterly, adjusted.

Pursuant to the Priority of Payments, scheduled payments required to be made by the Issuer under the Interest Rate Swap Agreement, together with any termination payments payable by the Issuer other than by reason of an event of default with respect to the Interest Rate Swap Counterparty or termination event where the Interest Rate Swap Counterparty is the "defaulting party" or the sole "affected party," will be payable pursuant to clause (3) under "Description of the Notes—Priority of Payments—Interest Proceeds" and, if Interest Proceeds are insufficient to pay such amounts in full, from Principal Proceeds pursuant to clause (1) under "Description of the Notes—Priority of Payments—Principal Proceeds." The Interest Rate Swap Agreement will be governed by New York law.

If the Interest Rate Swap Counterparty or its guarantor fails to maintain certain rating levels described in the Indenture and the Interest Rate Swap Agreement, such Interest Rate Swap Counterparty may be required to post collateral or assign its rights and obligations under the Interest Rate Swap Agreement to a replacement Interest Rate Swap Counterparty and, if the Interest Rate Swap Counterparty does not take such action as required under the Interest Rate Swap Agreement, the Issuer

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will be permitted to terminate the Interest Rate Swap Agreement. See "Risk Factors—Interest Rate Risk" for a discussion of certain considerations with respect to the Interest Rate Swap Agreement.

The Collateral Manager will have a limited role in connection with decisions relating to the Interest Rate Swap Agreement. Pursuant to the Indenture, the Issuer may not reduce the notional amount under the Interest Rate Swap Agreement. However, on any date (each such date, a **"Collateral Imbalance Date"**) on which the Net Outstanding Underlying Asset Balance is less than the notional amount of the Interest Rate Swap Agreement, the Interest Rate Swap Counterparty to the Interest Rate Swap Agreement will designate an early termination date with respect to the portion of the notional amount of each hedging transaction so affected; *provided, however*, that the Rating Condition must be satisfied with respect to any such early termination date. In addition, the Issuer may enter into a replacement Interest Rate Swap Agreement upon termination of an Interest Rate Swap Agreement or enter into additional Interest Rate Swap Agreements with the advice of the Collateral Manager only (a) if the Rating Condition is satisfied and (b) with respect to any additional Interest Rate Swap Agreement, the Interest Rate Swap Counterparty consents to such additional Interest Rate Swap Agreement.

The Interest Rate Swap Counterparty may terminate the Interest Rate Swap Agreement with the Issuer in limited circumstances whether or not the Notes have been paid in full prior to such termination, including in the event of (a) a failure by the Issuer to make, when due, any payment under the Interest Rate Swap Agreement within the applicable grace period; (b) certain events of bankruptcy, insolvency, conservatorship, receivership or reorganization of the Issuer; (c) a change in law making it illegal for either the Issuer or the Interest Rate Swap Counterparty to be a party to, or perform an obligation under, the Interest Rate Swap Agreement; (d) an Event of Default under the Indenture followed by a liquidation of Collateral on the Accelerated Maturity Date; and (e) the occurrence of a Clean-up Call Redemption, Optional Redemption, Tax Redemption, or Auction Call Redemption. With respect to such terminations, any amounts payable upon the termination of the Interest Rate Swap Agreement will be based upon standard replacement transaction valuation methodology set forth in the 1992 ISDA Master Agreement published by ISDA. In addition, the Issuer will not agree, without satisfaction of the Rating Condition solely with respect to Standard & Poor's, to any amendment, modification, or waiver of any provision of the Interest Rate Swap Agreement.

The obligations of the Issuer under the Interest Rate Swap Agreement are limited recourse obligations payable solely from the Collateral pursuant to the Priority of Payments.

The Accounts

Collection Accounts

All distributions on the Underlying Assets and any proceeds received from the Disposition of any such Underlying Assets, to the extent such distributions or proceeds constitute Interest Proceeds and any amounts payable to the Issuer by any Interest Rate Swap Counterparty under the Interest Rate Swap Agreement (other than amounts received by the Issuer by reason of an event of default or termination event thereunder) 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 Underlying Assets and any proceeds received from the Disposition of any such Underlying Assets to the extent such distributions or proceeds constitute Principal Proceeds (unless simultaneously reinvested in Eligible Investments) 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"**). Amounts on credited to the Principal Collection Account shall be applied in accordance with the Priority of Payments. The Collection Accounts shall be maintained for the benefit of the Noteholders and amounts on deposit therein will be available, together with reinvestment

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earnings thereon, for application in the order of priority set forth above under "Description of the Notes—Priority of Payments."

Amounts received in the Collection Accounts during a Due Period 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 as otherwise permitted under the Indenture.

"Eligible Investments" include any Dollar-denominated investment that is not a Prohibited Asset and is one or more of the following (and may include investments for which the Trustee and/or its affiliates provides services):

(a) cash;

(b) direct Registered obligations of, and Registered obligations the timely payment of principal and interest on which is fully and expressly guaranteed by, the United States or any agency or instrumentality of the United States the obligations of which are expressly backed by the full faith and credit of the United States;

(c) demand and time deposits in, certificates of deposit of, bankers' acceptances payable within 183 days of issuance issued by, or Federal funds sold by any depository institution or trust company incorporated under the laws of the United States or any state thereof and subject to supervision and examination by Federal and/or state banking authorities so long as the commercial paper and/or the debt obligations of such depository institution or trust company (or, in the case of the principal depository institution in a holding company system, the commercial paper or debt obligations of such holding company) at the time of such investment or contractual commitment providing for such investment have a credit rating of not less than "Aa2" by Moody's, and if so rated, such rating is not on watch for downgrade by Moody's, "AA+" by Standard & Poor's and "AA+" by Fitch Ratings ("Fitch") (if rated by Fitch) in the case of long-term debt obligations, or "P 1" by Moody's, and if so rated, such rating is not on watch for downgrade by Moody's, "A 1+" by Standard & Poor's and "F1+" by Fitch (if rated by Fitch) in the case of commercial paper and short-term debt obligations; provided that (i) in each case, the issuer thereof must have at the time of such investment or contractual commitment providing for such investment a long-term credit rating of not less than "Aa2" by Moody's, and if so rated, such rating is not on watch for downgrade by Moody's, and "AA+" by Fitch (if rated by Fitch) and (ii) in the case of commercial paper and short-term debt obligations with a maturity of longer than 91 days, the issuer thereof must also have at the time of such investment or contractual commitment providing for such investment a long-term credit rating of not less than "AA+" by Standard & Poor's and "AA+" by Fitch (if rated by Fitch);

(d) unleveraged repurchase obligations (if treated as debt for tax purposes by the issuer) 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 at the time of such investment or contractual commitment providing for such investment is not less than "Aa2" by Moody's, and if so rated, such rating is not on watch for downgrade by Moody's, "AA+" by Standard & Poor's and "AA+" by Fitch (if rated by Fitch) or whose short-term credit rating at the time of such

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investment or contractual commitment providing for such investment is "P 1" by Moody's, and if so rated, such rating is not on watch for downgrade by Moody's, "A 1+" by Standard & Poor's and "F1+" by Fitch (if rated by Fitch) at the time of such investment or contractual commitment providing for such investment; provided that (i) in each case, the issuer thereof must have at the time of such investment or contractual commitment providing for such investment a long-term credit rating of not less than "Aa2" by Moody's, and if so rated, such rating is not on watch for downgrade by Moody's, and "AA+" by Fitch (if rated by Fitch) 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 or contractual commitment providing for such investment a long-term credit rating of not less than "AA+" by Standard & Poor's and not less than "AA+" by Fitch (if rated 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 at the time of such investment or contractual commitment providing for such investment of not less than "Aa2" by Moody's, and if so rated, such rating is not on watch for downgrade by Moody's, "AA" by Standard & Poor's and "AA+" by Fitch (if rated 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 or contractual commitment providing for such investment a credit rating of "A 1+" by Standard & Poor's and "F1+" by Fitch (if rated by Fitch); provided that (i) in each case, the issuer thereof must have at the time of such investment or contractual commitment providing for such investment a long-term credit rating of not less than "Aa2" by Moody's, and if so rated, such rating is not on watch for downgrade by Moody's, and "AA+" by Fitch (if rated by Fitch) 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 or contractual commitment providing for such investment a long-term credit rating of not less than "AA" by Standard & Poor's and not less than "AA+" by Fitch (if rated 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 (if treated as debt for tax purposes by the issuer), in each case, that has a credit rating of not less than "P-1" by Moody's, and if so rated, such rating is not on watch for downgrade by Moody's, "A-1+" by Standard & Poor's and "F1+" by Fitch (if rated 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 so rated, such rating is not on watch for downgrade by Moody's, and "AA+" by Fitch (if rated by Fitch) and (ii) if such security has a maturity of longer than 91 days, the issuer thereof must also have at the time of such investment a long-term credit rating of not less than "AAA" by Standard & Poor's and not less than "AA+" by Fitch (if rated by Fitch) and satisfy the Rating Agency Condition in respect of Standard & Poor's;

(h) 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; provided that (i) such fund or vehicle is formed outside the United States and is not engaged in a United States trade or business, (ii) no income to be received from such fund or vehicle is or will be subject to deduction or withholding for or on account of any withholding or

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similar tax, and (iii) the ownership of an interest in such fund or vehicle will not subject the Issuer to net income tax in any jurisdiction;

(i) any guaranteed investment contract, asset swap, funding agreement, investment agreement or other similar agreement from, or a note or a certificate backed by any guaranteed investment contract, funding agreement, investment agreement or other similar agreement from, a bank, insurance company or other corporation or entity and has a long-term unsecured obligation rating of at least "AAA" by Standard & Poor's and at least "Aaa" by Moody's and satisfy the Rating Agency Condition in respect of Standard & Poor's; and

(j) any other security the acquisition of which satisfies the Rating Condition and the ownership of which will not subject the Issuer to income tax on a net income basis for U.S. federal income tax purposes;

and, in each case (other than clause (a) or (i) or (j)), with a stated maturity (giving effect to any applicable grace period) no later than the Business Day immediately preceding the Distribution Date immediately following the Due Period in which the date of investment occurs; *provided* that Eligible Investments may not include (i) any security that does not provide for the repayment of a stated fixed amount of principal in one or more installments, any interest-only security, any security purchased at a price in excess of 100% of the par value thereof or any security whose repayment is subject to substantial non-credit related risk as determined in the reasonable business judgment of the Collateral Manager, (ii) any Floating Rate Security whose interest rate is inversely or otherwise not proportionately related to an interest rate index or is calculated as other than the sum of an interest rate index *plus* a spread, (iii) any security subject to withholding tax in any jurisdiction or (iv) any security that is subject to an Offer and has not been called for redemption. Notwithstanding the foregoing, Eligible Investments will not include PIK Bonds, CMBS Securities, RMBS Securities, margin stock, securities that do not provide for the periodic payment of interest or which are zero coupon bonds and any security with a rating from Standard & Poor's which includes the subscript "p," "pi," "q," "r" or "t". The Trustee or its Affiliates are permitted to receive additional compensation that could be deemed to be in the Trustee's economic self-interest for (x) serving as investment advisor, administrator, shareholder, servicing agent, custodian or sub-custodian with respect to certain of the Eligible Investments, (y) using Affiliates to effect transactions in certain Eligible Investments and (z) effecting transactions in certain Eligible Investments; *provided, however*, that such compensation shall not be an amount that is reimbursable or payable by the Issuer or otherwise pursuant to the Indenture. For the avoidance of doubt, an Eligible Investment is not an Underlying Asset.

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 Due Period with respect to such Distribution Date) required for payments to Noteholders and payments of fees and expenses in accordance with the priority described under "Description of the Notes—Priority of Payments." In addition, any Uninvested Proceeds on deposit in the Uninvested Proceeds Account on the Determination Date preceding the September 2007 Distribution Date will be transferred to the Payment Account and treated as Principal Proceeds on the September 2007 Distribution Date and distributed in accordance with the Priority of Payments.

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Expense Account

On the Closing Date, after payment of the organizational and structuring fees and expenses of the Issuers (including, without limitation, the legal fees and expenses of counsel to the Issuers, the Initial Purchaser and the Collateral Manager) and the expenses of offering the Notes, at least U.S.$ 250,000 from the proceeds of the offering of the Notes will be deposited by the Trustee into a single, segregated account established and maintained by the Trustee under the Indenture (the **"Expense Account"**). All funds on deposit in the Expense Account will be invested in Eligible Investments at the direction of the Collateral Manager. Amounts standing to the credit of the Expense Account may be used to pay administrative expenses (including indemnities) and organization fees of the Issuers on any day other than a Distribution Date (other than fees of the Trustee, but including other amounts payable by the Issuer to the Collateral Manager under the Management Agreement or the Indenture). Amounts credited to the Expense Account will be (a) applied on or prior to the Determination Date preceding the First Distribution Date to pay amounts due in connection with the offering of the Notes and Preference Shares and (b) on the First Distribution Date, to the extent that the balance of the Expense Account exceeds U.S.$ 250,000 on the related Determination Date, transferred to the Payment Account and applied as Interest Proceeds. After the Closing Date, additional amounts may be credited to the Expense Account on any Distribution Date as described under "Description of the Notes—Priority of Payments."

Uninvested Proceeds Account

On the Closing Date, the Trustee will deposit the net proceeds (if any) from the issuance and sale of the Notes and Preference Shares *plus* any principal collections on the Underlying Assets received on or prior to the Closing Date that, on the Closing Date, are not invested in Underlying Assets, not deposited in the Collection Accounts and not deposited in the Expense Account into a single, segregated account established and maintained by the Trustee under the Indenture (the **"Uninvested Proceeds Account"**). At the direction of the Collateral Manager, amounts (if any) standing to the credit of the Uninvested Proceeds Account will be used to acquire Underlying Assets and Eligible Investments, which Eligible Investments shall be in overnight deposits. Investment earnings on Eligible Investments in the Uninvested Proceeds Account will be transferred to the Interest Collection Account and treated as Interest Proceeds on the September 2007 Distribution Date. In addition, any Uninvested Proceeds on deposit in the Uninvested Proceeds Account on the Determination Date preceding the September 2007 Distribution Date will be transferred to the Payment Account and treated as Principal Proceeds on the September 2007 Distribution Date and distributed in accordance with the Priority of Payments. For the avoidance of doubt, such amounts shall not be transferred to the Interest Collection Account or the Payment Account, as applicable, until the Determination Date preceding the September 2007 Distribution Date, prior to such date, such amounts shall be available to purchase Underlying Assets or Eligible Investments at the direction of the Collateral Manager.

Disposition Proceeds Account

All Disposition Proceeds will be deposited into a single, segregated account established and maintained by the Trustee under the Indenture (the **"Disposition Proceeds Account"**) and (i) either used to purchase one or more Underlying Assets within 60 or 90 days from the date of deposit into the Disposition Proceeds Account; or (ii) after 60 or 90 days from the date of deposit into the Disposition Proceeds Account, if not used to purchase Underlying Assets, transferred to the Principal Collection Account and designated as Principal Proceeds and on the following Distribution Date distributed in accordance with the Priority of Payments. In no event shall Disposition Proceeds be designated as Interest Proceeds. Amounts on deposit in the Disposition Proceeds Account will be invested in Eligible Investments at the direction of the Collateral Manager.

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Preference Share Payment Account

On each Distribution Date, the Trustee, in accordance with the Priority of Payments, will transfer to the Preference Share Paying Agent the amounts (if any) for deposit to a segregated account (the **"Preference Share Payment Account"**) established and maintained by the Preference Share Paying Agent pursuant to the Preference Share Paying Agency Agreement. The Preference Share Payment Account and any sums standing to the credit thereof shall not form part of the Collateral.

Synthetic Security Collateral Account

The Trustee will establish a segregated trust account (the **"Synthetic Security Collateral Account"**), that will be maintained by the Trustee as entitlement holder in respect of each Synthetic Security Counterparty and over which the Trustee will have exclusive control and the sole right of withdrawal in accordance with the Synthetic Securities and the Indenture. As directed by the Collateral Manager, the Trustee will, on the Closing Date, deposit into the relevant Synthetic Security Collateral Account all cash and Eligible Investments that are required to secure the obligations of the Issuer in accordance with the terms of the Synthetic Securities and the Offsetting Transactions. The Synthetic Security Collateral Account shall remain at all times with a financial institution having a long-term debt rating of at least "BBB+" by Standard & Poor's, at least "Baa1" by Moody's, and at least "BBB+" by Fitch and a combined capital and surplus in excess of $200,000,000.

As directed by the Collateral Manager in writing, cash on deposit in any Synthetic Security Collateral Account will be invested in Eligible Investments. Interest payments on Eligible Investments credited to any Synthetic Security Collateral Account will be applied, as directed by the Collateral Manager, to the payment of any periodic amounts owed by the Issuer to the related Synthetic Security Counterparty or Offsetting Transaction Counterparty on the date any such amounts are due, but only up to the amount of any excess over the Required Synthetic Security Collateral Amount. After application of any such amounts, any remaining interest payments then contained in the related Synthetic Security Collateral Account will be withdrawn from such account and deposited in the Collection Account for distribution as Interest Proceeds. Cash and Eligible Investments on deposit in any Synthetic Security Collateral Account will be included in the Collateral to the extent provided under "Security for the Notes—General" herein, will not be available to make payments under the Notes and shall not be considered to be an asset of the Issuer for purposes of any of the Collateral Quality Tests or the Coverage Tests, but the Synthetic Securities that relate to the Synthetic Security Collateral Account shall be considered an asset of the Issuer.

In the event a Synthetic Security or Offsetting Transaction is terminated prior to its scheduled maturity, the Collateral Manager on behalf of the Issuer shall cause such portion of the collateral in the related Synthetic Security Collateral Account that (subject to the Allocation Procedures) is available for making partial or full termination payment owed, if any, to the related Synthetic Security Counterparty or Offsetting Transaction Counterparty to be delivered to such Synthetic Security Counterparty or Offsetting Transaction Counterparty, and the remaining collateral for such terminated Synthetic Security or Offsetting Transaction in the related Synthetic Security Collateral Account (to the extent not required to be pledged to the related Synthetic Security Counterparty or Offsetting Transaction Counterparty) shall be released from the lien of the related Synthetic Security Counterparty and the Offsetting Transaction Counterparty and granted to the Trustee free of such lien. Any cash received upon the maturity or liquidation of any such collateral in the related Synthetic Security Collateral Account released from the lien of the relevant Synthetic Security Counterparty and the Offsetting Transaction Counterparty shall be credited to the Disposition Proceeds Account or deemed to be Principal Proceeds and credited to the Principal Collection Account.

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Upon the occurrence of a "credit event" under a Synthetic Security, at the direction of the Collateral Manager, the related collateral in the related Synthetic Security Collateral Account will be delivered to the related Synthetic Security Counterparty, to the extent required, upon delivery of a Delivered Obligation. In the event a "credit event" has occurred and the Issuer is required to liquidate such collateral in the related Synthetic Security Collateral Account and deliver cash to the relevant Synthetic Security Counterparty, the Issuer will bear any market risk on the liquidation of the collateral in such Synthetic Security Collateral Account.

Amounts contained in any Synthetic Security Collateral Account shall be withdrawn by the Trustee and applied toward the payment of any amounts payable by the Issuer to the related Synthetic Security Counterparty or Offsetting Transaction Counterparty in accordance with the terms of the Indenture and the related Synthetic Security or Offsetting Transaction, as directed by the Collateral Manager in writing. Any Excess Collateral Account Amount shall be withdrawn from any Synthetic Security Collateral Account and deposited in the Principal Collection Account or Disposition Proceeds Account for application in accordance with the terms of the Indenture; *provided* that to the extent that any such withdrawal from such Synthetic Security Collateral Account would require a withdrawal from the Initial Investment Agreement, such withdrawal may only be made in accordance with the terms of the Initial Investment Agreement. **"Excess Collateral Account Amount"** means the excess of (i) the related Synthetic Security Collateral Amount over (ii) the sum of (A) the related Required Synthetic Security Collateral Amount and (B) the absolute value of the net loss on the relevant Offset Transactions.

Interest Rate Swap Counterparty Collateral Accounts

If and to the extent that any Interest Rate Swap Agreement requires a Interest Rate Swap Counterparty to secure its obligations with respect to such Interest Rate Swap Agreement, the Trustee will establish a segregated trust account, held in the name of the Trustee (each such account, a **"Interest Rate Swap Counterparty Collateral Account"**). The Trustee shall deposit into each Interest Rate Swap Counterparty Collateral Account all amounts that are required to secure the obligations of the Interest Rate Swap Counterparty in accordance with the terms of such Interest Rate Swap Agreement. Except for investment earnings, a Interest Rate Swap Counterparty shall not have any legal, equitable or beneficial interest in any Interest Rate Swap Counterparty Collateral Account other than in accordance with the Indenture, the applicable Interest Rate Swap Agreement and applicable law. The Interest Rate Swap Counterparty Collateral Accounts shall remain at all times with a financial institution having a long-term debt rating of at least "BBB+" by Standard & Poor's, at least "Baa1" by Moody's, and at least "BBB+" by Fitch and a combined capital and surplus in excess of $200,000,000.

As directed by the Collateral Manager in writing and in accordance with the applicable Interest Rate Swap Agreement, cash on deposit in a Interest Rate Swap Counterparty Collateral Account on behalf of the Issuer shall be invested in Eligible Investments. Income received on amounts on deposit in the Interest Rate Swap Counterparty Collateral Account may be withdrawn from such account and paid to the related Interest Rate Swap Counterparty in accordance with the applicable Interest Rate Swap Agreement.

Cash and Eligible Investments on deposit in each Interest Rate Swap Counterparty Collateral Account will not be included in the Collateral and will not be available to make payments under the Notes other than as required under the related Interest Rate Swap Agreement. Amounts contained in any Interest Rate Swap Counterparty Collateral Account shall not be considered to be an asset of the Issuer for purposes of any of the Collateral Quality Tests or the Coverage Tests, but the Interest Rate Swap Agreement that relates to such Interest Rate Swap Counterparty Collateral Account shall be so considered an asset of the Issuer.

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With respect to any obligation by the Interest Rate Swap Counterparty for payment under any Interest Rate Swap Agreement, amounts contained in the related Interest Rate Swap Counterparty Collateral Account shall, as directed by the Collateral Manager in writing, be withdrawn by the Trustee and applied to the payment of such obligation payable by the related Interest Rate Swap Counterparty to the Issuer. Any excess amounts held in a Interest Rate Swap Counterparty Collateral Account after payment of all amounts owing from the related Interest Rate Swap Counterparty to the Issuer shall be withdrawn from such Interest Rate Swap Counterparty Collateral Account and paid to the related Interest Rate Swap Counterparty in accordance with the applicable Interest Rate Swap Agreement.

Synthetic Security Issuer Accounts

If and to the extent that any Synthetic Security requires a Synthetic Security Counterparty to secure its obligations with respect to such Synthetic Security, the Trustee will establish a segregated trust account, held in the name of the Trustee (each such account, a **"Synthetic Security Issuer Account"**). The Trustee shall deposit into each Synthetic Security Issuer Account all amounts that are required to secure the obligations of the Synthetic Security Counterparty in accordance with the terms of such Synthetic Security. Except for investment earnings, a Synthetic Security Counterparty shall not have any legal, equitable or beneficial interest in any Synthetic Security Issuer Account other than in accordance with the Indenture, the applicable Synthetic Security and applicable law. The Synthetic Security Issuer Accounts shall remain at all times with a financial institution having a long-term debt rating of at least "BBB+" by Standard & Poor's, at least "Baa1" by Moody's, and at least "BBB+" by Fitch and a combined capital and surplus in excess of $200,000,000.

As directed by the Collateral Manager in writing and in accordance with the applicable Synthetic Security, cash on deposit in a Synthetic Security Issuer Account on behalf of the Issuer shall be invested in Eligible Investments. Income received on amounts on deposit in the Synthetic Security Issuer Account may be withdrawn from such account and paid to the related Synthetic Security Counterparty in accordance with the applicable Synthetic Security.

Cash and Eligible Investments on deposit in each Synthetic Security Issuer Account will not be included in the Collateral and will not be available to make payments under the Notes other than as required under the related Synthetic Security. Amounts contained in any Synthetic Security Issuer Account shall not be considered to be an asset of the Issuer for purposes of any of the Collateral Quality Tests or the Coverage Tests, but the Synthetic Security or Synthetic Securities that relate to such Synthetic Security Issuer Account shall be so considered an asset of the Issuer.

With respect to any obligation by the Synthetic Security Counterparty for payment under any Synthetic Security, amounts contained in the related Synthetic Security Issuer Account shall, as directed by the Collateral Manager in writing, be withdrawn by the Trustee and applied to the payment of such obligation payable by the related Synthetic Security Counterparty to the Issuer. Any excess amounts held in a Synthetic Security Issuer Account after payment of all amounts owing from the related Synthetic Security Counterparty to the Issuer shall be withdrawn from such Synthetic Security Issuer Account and paid to the related Synthetic Security Counterparty in accordance with the applicable Synthetic Security.

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THE ISSUERS

General

The Issuer was incorporated as an exempted company with limited liability and registered on October 20, 2006 in the Cayman Islands with registered number DB-176033, is in good standing under the laws of the Cayman Islands and has an indefinite existence. The Issuer has been established as a special purpose vehicle for the purpose of issuing the Notes. The registered office of the Issuer is at the offices of Deutsche Bank (Cayman) Limited, P.O. Box 1984, Grand Cayman KY1-1104, Cayman Islands. The Issuer's telephone number is +1(345) 949-8244. The Issuer has no prior operating experience other than in connection with the acquisition of certain Underlying Assets prior to the issuance of the Notes and the Preference Shares and the engagement of the Collateral Manager 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, among other things, the Notes and the Issuer's obligations to the Trustee, the Collateral Manager, any Interest Rate Swap Counterparty, the Offsetting Transaction Counterparty and the Synthetic Security Counterparty. Clause 3 of the Issuer Charter sets out the objects of the Issuer, which include the business to be carried out by the Issuer in connection with the Notes. As at the Closing Date, the entire authorized shares of the Issuer will consist of (a) 250 ordinary shares, par value U.S.$1.00 each (all of which will be issued and held in trust for charitable purposes by Deutsche Bank (Cayman) Limited, a licensed trust company incorporated in the Cayman Islands (in such capacity, the **"Share Trustee"**), under the terms of a declaration of trust) and (b) 59,500 Preference Shares, par value U.S.$0.01, all of which will be issued at a liquidation preference of U.S.$1,000 each.

The Co-Issuer was incorporated on February 23, 2007 under the law of the State of Delaware with an organizational number 070220501 and its registered office is c/o Donald Puglisi, 850 Library Avenue, Suite 204, Newark, Delaware 19711. The sole director and officer of the Co-Issuer is Donald Puglisi, and he may be contacted at the principal office of the Co-Issuer listed on the last page of this Offering Circular. The Co-Issuer's telephone number is +1(302) 738-6680. The Co-Issuer has no prior operating experience. The Co-Issuer has been established as a special purpose vehicle for the purpose of issuing the Notes. It will not have any assets (other than its U.S.$1,000 of share capital owned by the Issuer) and will not pledge any assets to secure the Notes. The third clause of the Co-Issuer's certificate of incorporation sets out the objects of the Co-Issuer, which include the business to be carried out by the Co-Issuer in connection with the Notes. The Co-Issuer will not have any interest in the Underlying Assets or other assets held by the Issuer.

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

Deutsche Bank (Cayman) Limited will act as the administrator (in such capacity, the **"Administrator"**) and the Share Registrar of the Issuer. The office of the Administrator will serve as the general business office of the Issuer. Through this office and pursuant to the terms of an agreement by and between the Administrator and the Issuer (the **"Administration Agreement"**), the Administrator will perform various management functions on behalf of the Issuer, including 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 and the Issuer will provide certain indemnities to the Administrator in connection with its performance of such services.

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The Administrator will be subject to the overview of the Board of Directors of the Issuer. The directors of the Issuer are Alan Corkish, David Dyer, Simon Wetherell and Tim Fitzgerald, each of whom is a director or officer and an employee of the Administrator and each of whose offices are at P.O. Box 1984, Grand Cayman KY1-1104, Cayman Islands. The Administration Agreement may be terminated by the Issuer or the Administrator upon 14 days' notice following the occurrence of certain events. In addition, the Administration Agreement may be terminated upon three months' notice (subject to the appointment of a replacement administrator).

The Administrator's principal office is at P.O. Box 1984, Grand Cayman KY1-1104, Cayman Islands.

Capitalization and Indebtedness of the Issuer and the Co-Issuer

The initial capitalization and indebtedness of the Issuer as of the Closing Date, after giving effect to the issuance of the Notes, the Preference Shares and the ordinary shares of the Issuer but before deducting expenses of the offering of the Notes and of the placement of the Preference Shares and organizational expenses of the Issuers, is expected to be as follows:

Class A-1a Notes	U.S.$244,000,000
Class A-1b Notes	U.S.$400,000,000
Class A-2 Notes	U.S.$159,000,000
Class B Notes	U.S.$96,900,000
Class C Notes	U.S.$68,300,000
Class D Notes	U.S.$55,100,000
Class E Notes	U.S.$18,700,000
Total Debt	U.S.$1,042,000,000
Ordinary Shares	250
Preference Shares	U.S.$59,500,000
Total Equity	U.S.$59,500,250
Total Capitalization	U.S.$1,101,500,250

As of the Closing Date and after giving effect to the issuance of the Preference Shares, the issued share capital of the Issuer will be 250 ordinary shares, par value U.S.$1.00 per share, and 59,500 Preference Shares, par value U.S.$0.01 per share and with a liquidation preference of U.S.$1,000 per share.

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

The Co-Issuer will be capitalized only to the extent of its U.S.$250 of share capital, will have no assets other than its share capital 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 shares, the authorized and issued share capital of the Co-Issuer will be 250 shares of common stock, par value U.S.$1.00 per share.

Business

The Indenture and the Issuer Charter provide that the activities of the Issuer are limited to (a) investment and reinvestment in Underlying Assets and Eligible Investments, (b) the entering into, and the performance of its obligations under, the Indenture, any Interest Rate Swap Agreement, the Offset Transactions, the Offsetting Transactions, the Synthetic Securities, any Investment Agreement, the Management Agreement, the Collateral Administration Agreement, the Administration Agreement, the Note Purchase Agreement, the Subscription Agreement and the Preference Share Paying Agency Agreement, (c) the issuance and sale of the Notes and Preference Shares, (d) the pledge of the Collateral as security for its obligations in respect of the Notes and its obligations to the other Secured Parties, (e) ownership of the Co-Issuer and (f) other activities incidental to the foregoing. The Issuer has no employees and no subsidiaries other than the Co-Issuer. The Co-Issuer will not undertake any business other than the issuance of the Notes.

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 law, and the Co-Issuer does not intend, to publish annual reports and accounts. The Indenture, however, requires the Issuer to provide the Trustee, on an annual basis, with a certificate reviewing the activities of the Issuer and of the Issuer's performance during the preceding year and stating that, to the best of the certifying officer's knowledge, the Issuer has fulfilled all of its obligations under the Indenture or, if there has been a default, specifying such default, the nature and status thereof and any actions undertaken to remedy such default.

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THE COLLATERAL MANAGER

The information appearing in this section (other than the information contained under the heading "General") has been prepared by the Collateral Manager and has not been independently verified by the Issuers or the Initial Purchaser. Neither the Issuers nor the Initial Purchaser assumes any responsibility for the accuracy, completeness or applicability of such information. Accordingly, the Collateral Manager assumes sole responsibility for the accuracy, completeness or applicability of such information.

General

Certain administrative and advisory functions with respect to the Collateral will be performed by the Collateral Manager under the Management Agreement to be entered into between the Issuer and the Collateral Manager (the **"Management Agreement"**). The Collateral Manager will, pursuant to the terms of the Management Agreement, select, monitor and provide the Issuer with certain information relating to, the portfolio of Underlying Assets, may act as the Auction Agent, direct the Disposition certain Underlying Assets, including any Credit Risk Asset, Credit Improved Asset, Defaulted Asset, Withholding Security or Equity Security, or instruct the Trustee with respect to the purchase of Underlying Assets and investment in Eligible Investments as further set forth herein.

Additionally, during the Reinvestment Period, the Collateral Manager is permitted to Dispose of any Underlying Asset that is Investment Grade other than an Equity Security, Credit Risk Asset, Defaulted Asset, Withholding Security or Credit-Improved Asset; provided that, for any given calendar year, the aggregate principal balance of any such Underlying Assets Disposed of does not exceed 20% of the aggregate principal balance of all Underlying Assets.

All acquisitions and Dispositions of Eligible Investments and Underlying Assets, and all Dispositions of Equity Securities, by the Collateral Manager on behalf of the Issuer shall be conducted in compliance with all applicable laws. The Collateral Manager shall cause any acquisition or Disposition of any Underlying Asset or Eligible Investment, and the sale of any Equity Security, to be conducted on an arm's-length basis or as provided in the Indenture with respect to a redemption of the Notes and/or Preference Shares.

One or more Affiliates of the Collateral Manager will acquire all of the Preference Shares and may acquire some or all of the Class E Notes on the Closing Date. In addition, the Management Agreement will provide that the Collateral Manager shall notify the Trustee or the Preference Share Paying Agent, as applicable, upon the sale or transfer by the Collateral Manager of any Preference Shares to a person that is not an Affiliate of the Collateral Manager, and the Trustee shall deliver notice of such transfer to the holders of the Notes (to the extent such Notes remain outstanding). The Collateral Manager and its Affiliates may at times own Notes. At any given time, the Collateral Manager and its Affiliates will not be entitled to vote the Collateral Manager Securities with respect to any assignment or termination of any of the express rights or obligations of the Collateral Manager under the Management Agreement or the Indenture (including the exercise of any rights to remove the Collateral Manager or terminate the Management Agreement), or any amendment or other modification of the 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 the Notes and Preference Shares held by them with respect to all other matters. See "Risk Factors—Certain Conflicts of Interest."

Confidential Treatment Requested GEM7-00000612

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HBK Investments L.P.

HBK Investments L.P., a Delaware limited partnership (together with its affiliated subadvisors and their respective successors, "**HBK**"), will act as Collateral Manager to the Issuer (in such capacity, the "**Collateral Manager**"). Collateral management services for the Issuer will be performed by various affiliated subadvisors of HBK Investments L.P., which are under common control with HBK Investments L.P. The headquarters of HBK are located at 300 Crescent Court, Suite 700, Dallas, Texas 75201.

HBK was founded in 1991. HBK is managed by thirteen managing directors and has offices in Dallas, New York, London, Hong Kong and Tokyo. HBK is an investment management firm that, as of December 31, 2006, had approximately $12 billion in capital under management.

From time to time, HBK has responded to various requests for information from governmental and regulatory bodies, including routine inspections and examinations, as well as enforcement inquiries and investigations. HBK has provided information to the SEC related to private investments in public equity and similar transactions and related trading activity. These transactions represent a small portion of HBK's overall business and are unrelated to its activities as Collateral Manager. HBK is listed, along with several other entities, in an SEC formal order of investigation related to these matters, and relevant personnel of HBK have given testimony. HBK believes the investigation is focused on insider trading issues related to trading before the public announcement of certain transactions and is one of many such investigations or inquiries directed toward numerous market participants, including brokerage firms, other intermediaries and investors. Based on interactions to date with the SEC staff and the limited scope of HBK's activities in this area, HBK does not believe the investigation will result in a material effect on HBK or have any financial effect on the Issuer or any of the private investment funds that HBK manages.

Biographies

Set forth below is information regarding certain persons who are currently employed by the Collateral Manager, although such persons may not necessarily continue to be so employed during the entire term of the Management Agreement and/or may not continue to perform services for the Collateral Manager under the Management Agreement.

Jamiel Akhtar, Managing Director

Mr. Akhtar has been associated with HBK since 1993 and is a Managing Director of HBK. Mr. Akhtar is primarily responsible for HBK's developed markets fixed income arbitrage portfolio, which includes investments in government and agency bonds, futures, interest rate derivatives, and mortgage and asset-backed securities. He received an A.B. degree cum laude in Economics in 1993 from Harvard College.

Kevin Jenks, Senior Portfolio Manager

Mr. Jenks has been associated with HBK since 2002 and is the firm's senior portfolio manager for the ABS, MBS and CMBS sectors. From 2000 to 2002, Mr. Jenks was a senior portfolio manager at Vanderbilt Capital Advisors, LLC specializing in the structured product fixed income market with a focus on structured credit securities. He was a senior member of a five person team responsible for managing over $6 billion in institutional fixed income portfolios for clients. From 1997 to 2000, Mr. Jenks was a portfolio manager with Prime Advisors, where he was responsible for the trading, investment strategy and management of a $3 billion plus fixed income portfolio consisting of total return funds and insurance company portfolios. In addition, he was also the firm's sector manager for structured product securities. Prior to 1997, Mr. Jenks held various trading, analyst and portfolio management positions at Bank

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Boston, The Boston Company Asset Management and Fidelity Investments. Mr. Jenks received a B.S. degree in Finance in 1992 from the University of Massachusetts.

Jason Lowry, Assistant Trader/Analyst

Mr. Lowry is an assistant trader/analyst with HBK. Jason oversees system analytics and surveillance. Prior to joining HBK Mr. Lowry was a quantitative analyst with Freddie Mac in fixed income research. Mr. Lowry received a B.S. degree in Physics from Carnegie Mellon in 2001.

Marco Lukesch

Mr. Lukesch is an analyst with HBK. Marco's primary responsibilities include surveillance and collateral analysis on new trades and existing positions. Prior to joining HBK Mr. Lukesch was a consultant with Oliver, Wyman & Co, a strategy consulting firm devoted to the financial services industry. Mr. Lukesch graduated magna cum laude from the University of Pennsylvania in 2001 receiving a B.S. from the Wharton School and a B.A. from the college.

Kimberlee K. Rozman, Associate General Counsel

Ms. Rozman has been associated with HBK since 1999 and is Associate General Counsel of HBK. Ms. Rozman is responsible for a range of HBK's legal matters. Prior to joining HBK Ms. Rozman was associated with Jackson & Walker L.L.P. Ms. Rozman received a J.D. degree summa cum laude from Dickinson Law School in 1990.

Gayla Utley, Director of Operations

Ms. Utley has been associated with HBK since 1996 and is responsible for global trading operations. Ms. Utley graduated from Texas A&M University in 1996 with a B.S. in Accounting.

Qi Wang

Ms. Wang has been associated with HBK since 1998 and is primarily responsible for the US fixed income arbitrage book. From 1996 to 1998, she worked on the US government sales desk at Lehman Brothers. She graduated magna cum laude from Yale University in 1995 with degrees in molecular biophysics & biochemistry and economics.

Brett Orr, CFA

Mr. Orr has been with HBK since 1997 and is responsible for financing all of HBK's government, asset backed and mortgage backed securities. He graduated with honors in 1997 from Abilene Christian University with a B.S. in Financial Management.

Jim Wang

Mr. Wang is a senior quantitative analyst with HBK. Jim's primary responsibilities include developing prepayment and default models to analyze mortgage pools. Prior to joining HBK, Mr. Wang was a quantitative analyst in ABS research at Citigroup. Mr. Wang graduated from Brandeis University with a Ph.D. in physics in 1996.

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THE MANAGEMENT AGREEMENT

The following summary describes certain provisions of the 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 Management Agreement.

As compensation for the performance of its obligations as Collateral Manager under the Management Agreement, the Collateral Manager will receive a fee (the **"Management Fee"**), to the extent of the funds available for such purpose in accordance with the Priority of Payments. The Management Fee will accrue from the Closing Date at a rate of 0.30% *per annum* on the Quarterly Asset Amount, payable in arrears on each Distribution Date. In addition, if the Collateral Manager acts as Auction Agent, as compensation for the performance of its obligations as Auction Agent under the Management Agreement, the Collateral Manager will receive fees (the **"Auction Agent Fees"**) as described in the succeeding sentence, to the extent of the funds available for such purpose in accordance with the Priority of Payments. The Auction Agent Fee will be (a) U.S.$35,000 on the first Auction Date; (b) if the Auction Call Redemption is not successful on the First Auction Call Date, U.S.$25,000 on the Distribution Date immediately following the First Auction Call Date; and (c) U.S.$15,000 on each Auction Date thereafter, if any. Any Management Fee or Auction Agent Fee accrued prior to the resignation or removal of the Collateral Manager will continue to be payable to the Collateral Manager on the Distribution Date immediately following the effectiveness of such resignation or removal.

To the extent not paid on any Distribution Date when due, any accrued Management Fee or Auction Agent Fee will be deferred and will be payable on the next subsequent Distribution Date on which funds are available for the payment thereof in accordance with the Priority of Payments. Any unpaid Management Fee or Auction Agent Fee that is deferred due to the operation of the Priority of Payments will not accrue interest.

The Collateral Manager will be responsible for its own ordinary expenses and costs incurred in the course of performing its obligations under the Management Agreement; *provided* that the Collateral Manager shall not be liable for the payment of any extraordinary expenses and costs or for the payment of expenses and costs of (a) legal advisers, accountants, consultants and other professionals retained by the Issuer or by the Collateral Manager on behalf of the Issuer in connection with certain services to be provided by the Collateral Manager as specified in the Management Agreement and (b) reasonable travel expenses undertaken in connection with effecting or directing Disposition of Underlying Assets and Eligible Investments, negotiating with issuers of Underlying Assets as to proposed modifications or waivers, taking action or advising the Trustee with respect to the Issuer's exercise of any rights or remedies in connection with the Underlying Assets and Eligible Investments, including in connection with an offer or default, participating in committees or other groups formed by creditors of an issuer of Underlying Assets. Such expenses will be paid by the Issuer.

The Collateral Manager will not be liable to the Issuers, the Trustee, the Noteholders, any Interest Rate Swap Counterparty or any of their respective affiliates, partners, shareholders, officers, directors, employees, consultants, agents, accountants and attorneys for any losses, damages, claims, liabilities, costs or expenses (including attorney's fees and expenses) incurred as a result of the actions taken or omitted or recommended by or on behalf of the Collateral Manager under the Management Agreement or the Indenture, except by reason of acts constituting bad faith, willful misconduct, gross negligence or reckless disregard of its duties and obligations thereunder. The Collateral Manager and its Affiliates and each of their respective partners, shareholders, members, officers, directors, managers, employees, consultants, agents, accountants and attorneys will be entitled to indemnification by the Issuer under

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certain circumstances (as specified in the Management Agreement), which will be paid in accordance with the Priority of Payments.

The Collateral Manager may not assign its rights or responsibilities under the Management Agreement without the consent of the Issuer and the holders of a majority in aggregate principal amount of Notes of the Controlling Class and upon satisfaction of the Rating Condition, except that pursuant to the Management Agreement the Collateral Manager may assign all of its rights and responsibilities thereunder (without thereby being relieved of any of its duties or obligations) to an Affiliate without the consent of the Issuer, the Trustee but, so long as any Class A-1 Notes remain outstanding, subject to the consent of the Controlling Class. In addition, the Collateral Manager may, pursuant to the 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 shall not relieve the Collateral Manager from any of its duties or obligations thereunder.

The Collateral Manager may resign upon 60 days' prior written notice to the Issuer and the Trustee, *provided* that (a) no such resignation shall be effective unless a Replacement Manager is appointed as described below and (b) the Collateral Manager shall 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 Management Agreement would be a violation of such law or regulation.

The Management Agreement provides that the Collateral Manager may at any time be removed for "cause" (as defined in the Management Agreement) upon 15 Business Days' prior written notice by the Issuer, which will effect such removal at the direction of holders of at least 66 2/3% in aggregate outstanding principal amount of the holders of the Controlling Class (voting as a separate class) and the holders of at least 66 2/3% of Preference Shares. In determining whether a specified percentage of holders of Notes or Preference Shares has directed any such removal as described above or given any objection to a successor Collateral Manager as described below, Collateral Manager Securities will be excluded.

For purposes of the Management Agreement, **"cause"** means any of the following events:

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

(b) the Collateral Manager breaches in any material respect any provision, including a representation or warranty, of the Management Agreement or any terms of the Indenture applicable to it and fails to cure such breach within 30 days after written notice of such failure is received by the Collateral Manager unless, if such failure is remediable, the Collateral Manager has taken action that the Collateral Manager in good faith believes will remedy, and that does in fact remedy, such failure within 90 days after written notice of such failure is received by the Collateral Manager;

(c) the Collateral Manager (i) ceases to be able to, or admits in writing its inability to, pay its debts when and as they become due, (ii) 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, (iii) makes an assignment for the benefit of its creditors, (iv) consents to the appointment of a custodian,

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receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property or (v) is adjudicated as insolvent or is to be liquidated;

(d) the Class A-1 OC Ratio falls below 100%;

(e) the occurrence of an act by the Collateral Manager that constitutes fraud or criminal activity in the performance of its obligations under the Management Agreement; or

(f) the indictment of the Collateral Manager or any of the Collateral Manager's senior portfolio management staff who have direct supervisory responsibility for the management of the Collateral, and who continue to have involvement with the Collateral Manager's performance under the Management Agreement for a period of 30 days following such indictment for a criminal felony offense materially related to the Collateral Manager's investment advisory business relating to collateralized debt obligation transactions.

No removal, termination or resignation of the Collateral Manager or termination of the Management Agreement shall be effective unless (a) a successor Collateral Manager (the **"Replacement Manager"**) has agreed in writing to assume all of the Collateral Manager's duties and obligations, including its duties and responsibilities as the Auction Agent, (b) the Replacement Manager is not objected to by holders of at least 66 2/3% in aggregate outstanding principal amount of any Class of Notes or the holders of at least 66 2/3% of the Preference Shares (excluding from such vote any Collateral Manager Securities) within 30 days after notice and (c) the Rating Condition has been satisfied with respect to the appointment of the Replacement Manager; *provided, however*, that at any time when an Event of Default shall have occurred and be continuing under the Indenture and the Collateral Manager shall have resigned or been removed under the circumstances set forth above, the holders of a Majority of the Notes of the Controlling Class may appoint a successor Collateral Manager (if the Rating Condition has been satisfied with respect to the appointment of the Replacement Manager).

In addition, no removal or resignation of the Collateral Manager while any Note or Preference Share is outstanding will be effective until the appointment by the Issuer of a Replacement Manager that is an established institution which (a) is legally qualified and has the capacity to act as Collateral Manager under the Management Agreement as successor to the Collateral Manager in the assumption of all of the responsibilities, duties and obligations of the Collateral Manager under the Management Agreement and under the applicable terms of the Indenture, including its duties and responsibilities as the Auction Agent, and (b) will not cause the Issuer or the pool of Collateral to become required to register as an investment company under the provisions of the Investment Company Act. The Indenture provides that if holders of at least 66 2/3% in aggregate outstanding principal amount of any Class of Notes or the holders of at least 66 2/3% of the Preference Shares (excluding from such votes the Collateral Manager Securities if the proposed Replacement Manager is an Affiliate of the Collateral Manager) object to a proposed Replacement Manager within 30 days after such notice (the **"First Period"**), the Trustee shall notify the holders of the Notes and Preference Shares that such Replacement Manager has been rejected. Such notice shall state that a Majority-in-Interest of Preference Shareholders may nominate a successor Collateral Manager within 60 days after the termination of the First Period (the **"Second Period"**) and specify a date (not more than 20 days after the end of the First Period), time and place for a meeting (which meeting may be held telephonically) at which the Preference Shareholders may nominate (if necessary, by a majority vote of the Preference Shareholders present at such meeting) not more than two proposed successor Collateral Managers (which proposed successor Collateral Managers shall meet the requirements of a Replacement Manager specified in the Management Agreement). The Trustee shall notify each Preference Shareholder and Noteholder of the successor Collateral Managers proposed at such meeting and request that each Preference Shareholder and Noteholder, by notice given to the

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Trustee not later than 20 days after such meeting, select a successor Collateral Manager (if there are two proposed successor Collateral Managers) or approve such proposed Collateral Manager (if only one successor Collateral Manager is proposed). If such a successor Collateral Manager is objected to by a Majority-in-Interest of Preference Shareholders or by the Holders of 66 2/3% in aggregate principal amount of any Class of Notes, the Trustee shall notify each Holder of a Preference Share of the failure to appoint a successor Collateral Manager and specify a date (prior to the end of the Second Period), time and place for a meeting (which meeting may be held telephonically) at which a Majority-in-Interest of the Preference Shareholders present (so long as holders of at least 66 2/3% of the Preference Shares are represented at such meeting) may appoint a successor Collateral Manager. The Collateral Manager Securities shall be excluded from the determination of whether 66 2/3% in aggregate principal amount of any Class of Notes or a Majority-in-Interest of Preference Shareholders for appointing or approving (or objecting to) a successor Collateral Manager has been obtained, except that for purposes of appointing or approving a successor Collateral Manager that is not an Affiliate of the Collateral Manager, the Notes and Preference Shares which are Collateral Manager Securities shall be included in determining whether the Noteholders and Preference Shareholders have selected or approved (or objected to) such successor Collateral Manager. In the event that a successor to the Collateral Manager is not appointed within 90 days after its resignation or removal, the Issuer or the Collateral Manager may petition a court to appoint a successor, without obtaining the approval of the Holders of the Notes and the Preference Shares.

Pursuant to the Indenture, the Trustee is entitled to exercise the rights and remedies of the Issuer under the 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 termination of the Collateral Manager in accordance with the Management Agreement or (c) upon a material default in the performance, or breach, of any covenant, representation, warranty or other agreement of the Issuer under the Indenture or in any certificate or writing delivered pursuant thereto or made in connection therewith which proves to be incorrect in any material respect when made if (i) holders of at least 50% in aggregate outstanding principal amount of the Notes of any Class, Preference Shareholders whose aggregate Voting Percentages are at least 50% of all Preference Shareholders' Voting Percentages or any Interest Rate Swap Counterparty gives notice of such default or breach to the Trustee and the Collateral Manager or (ii) the Collateral Manager, Issuer or Co-Issuer has actual knowledge of such default or breach, and in either case, such default or breach (if remediable) continues for a period of 30 days.

In certain circumstances, the interests of the Issuer and/or the holders of the Notes with respect to matters as to which the Collateral Manager is advising the Issuer may conflict with the interests of the Collateral Manager and its Affiliates. See "Risk Factors—Certain Conflicts of Interest."

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DEUTSCHE BANK AKTIENGESELLSCHAFT

Incorporation, Registered Office and Objectives

Deutsche Bank Aktiengesellschaft (**"Deutsche Bank"** or the **"Bank"**) originated from the reunification of Norddeutsche Bank Aktiengesellschaft, Hamburg, Rheinisch-Westfälische Bank Aktiengesellschaft, Duesseldorf and Süddeutsche Bank Aktiengesellschaft, Munich; pursuant to the Law on the Regional Scope of Credit Institutions, these had been disincorporated in 1952 from Deutsche Bank which was founded in 1870. The merger and the name were entered in the Commercial Register of the District Court Frankfurt am Main on 2 May 1957. Deutsche Bank is a banking institution and a stock corporation incorporated under the laws of Germany under registration number HRB 30 000. The Bank has its registered office in Frankfurt am Main, Germany. It maintains its head office at Taunusanlage 12, 60325 Frankfurt am Main and branch offices in Germany and abroad including in London, New York, Sydney, Tokyo and an Asia-Pacific Head Office in Singapore which serve as hubs for its operations in the respective regions.

Deutsche Bank is the parent company of a group consisting of banks, capital market companies, fund management companies, a real-estate finance company, instalment financing companies, research and consultancy companies and other domestic and foreign companies (the **"Deutsche Bank Group"**).

The objects of Deutsche Bank, as laid down in its Articles of Association, include the transaction of all kinds of banking business, the provision of financial and other services and the promotion of international economic relations. The Bank may realise these objectives itself or through subsidiaries and affiliated companies. To the extent permitted by law, the Bank is entitled to transact all business and to take all steps which appear likely to promote the objectives of the Bank, in particular: to acquire and dispose of real estate, to establish branches at home and abroad, to acquire, administer and dispose of participations in other enterprises, and to conclude company-transfer agreements.

Deutsche Bank AG, London Branch

"Deutsche Bank AG London" is the London branch of Deutsche Bank AG. On 12 January 1973, Deutsche Bank AG filed in the United Kingdom the documents required pursuant to section 407 of the Companies Act 1948 to establish a place of business within Great Britain. On 14 January 1993, Deutsche Bank registered under Schedule 21A to the Companies Act 1985 as having established a branch (Registration No. BR000005) in England and Wales. Deutsche Bank AG London is an authorized person for the purposes of section 19 of the Financial Services and Markets Act 2000. In the United Kingdom, it conducts wholesale banking business and through its Private Wealth Management division, it provides holistic wealth management advice and integrated financial solutions for wealthy individuals, their families and selected institutions.

Share Capital

As of 30 September 2006, Deutsche Bank's issued share capital amounted to Euro 1,334,735,508.48 consisting of 521,381,058 ordinary shares without par value. The shares are fully paid up and in registered form. The shares are listed for trading and official quotation on all the German Stock Exchanges. They are also listed on the New York Stock Exchange. The Management Board has decided to pursue delisting on certain stock exchanges other than Germany and New York in order to benefit from the integration of financial markets. In respect of the stock exchanges Amsterdam, Brussels, London, Luxembourg, Paris, Vienna, Zurich and Tokyo, this decision has completely been implemented.

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Capitalisation and Indebtedness of Deutsche Bank Group

As of 30 September 2006, Deutsche Bank Group's capitalisation and indebtedness (unaudited) on the basis of United States Generally Accepted Accounting Principles ("**U.S. GAAP**") was as follows:

	As of 30 September 2006
	(in Euro million)
Noninterest-bearing deposits	26,992
Interest-bearing deposits	348,703
Total deposits	375,695
Bonds and other fixed-income securities	92,042
Equity shares and other variable-yield securities	45,048
Negative market values from derivative financial instruments	93,786
Total trading liabilities	230,876
Central bank funds purchased and securities sold under repurchase agreements	192,739
Securities loaned	12,876
Other short-term borrowings	29,485
Other liabilities	93,631
Long-term debt	126,788
Obligation to purchase common shares	3,406
Total liabilities	**1,065,496**
Common shares, no par value, nominal value of Euro 2.56 Issued: Sep 30, 2006: 521.4 million shares; Dec 31, 2005: 554.5 million shares	1,335
Additional paid-in capital	14,009
Retained earnings	23,233
Common shares in treasury, at cost	
Sep 30, 2006: 24.5 million shares; Dec 31, 2005: 49.0 million shares	(2,205)
Equity classified as obligation to purchase common shares	(3,406)
Accumulated other comprehensive income (loss)	
Deferred tax on unrealized net gains on securities available for sale relating to 1999 and 2000 tax rate changes in Germany	(2,165)
Unrealized net gains on securities available for sale, net of applicable tax and other	2,169
Unrealized net gains (losses) on derivatives hedging variability of cash flows, net of tax	(38)
Minimum pension liability, net of tax	(8)
Foreign currency translation, net of tax	(1,874)
Total accumulated other comprehensive loss	**(1,916)**
Total shareholders' equity	**31,050**
Total liabilities and shareholders' equity	**1,096,546**

There has been no material change in Deutsche Bank Group's capitalisation and indebtedness since 30 September 2006.

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Management

In accordance with German law, Deutsche Bank has both a **Supervisory Board** *(Aufsichtsrat)* and a **Management Board** *(Vorstand)*. These Boards are separate; no individual may be a member of both. The Supervisory Board appoints the members of the Management Board and supervises the activities of this Board. The Management Board represents Deutsche Bank and is responsible for its management of its affairs.

The **Management Board** consists of

Dr. Josef Ackermann	Chairman of the Management Board (Chief Executive Officer)
Dr. Hugo Banziger	Chief Risk Officer (CRO)
Anthony Di Iorio	Chief Financial Officer (CFO)
Dr. Tessen von Heydebreck	Chief Administrative Officer (CAO)
Hermann-Josef Lamberti	Chief Operating Officer (COO)

The **Supervisory Board** consists of the following 20 members:

Dr. Clemens Boersig	Chairman Frankfurt am Main
Heidrun Förster*	Deputy Chairperson Deutsche Bank Privat- und Geschäftskunden AG Berlin
Dr. Karl-Gerhard Eick	Deputy Chairman of the Board of Managing Directors of Deutsche Telekom AG Cologne
Ulrich Hartmann	Chairman of the Supervisory Board of E.ON AG Düsseldorf
Gerd Herzberg*	Vice President of ver.di Vereinte Dienstleistungsgewerkschaft Berlin
Sabine Horn*	Deutsche Bank AG Frankfurt am Main
Rolf Hunck*	Deutsche Bank AG Hamburg
Sir Peter Job	London
Prof. Dr. Henning Kagermann	Chairman and CEO of SAP AG Walldorf/Baden

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Ulrich Kaufmann*	Deutsche Bank AG Düsseldorf
Peter Kazmierczak*	Deutsche Bank AG Essen
Maurice Lévy	Chairman and Chief Executive Officer, Publicis Groupe S.A. Paris
Henriette Mark*	Deutsche Bank AG Munich
Dr. jur. Dr.-Ing. E.h. Heinrich von Pierer	Chairman of the Supervisory Board of Siemens AG Erlangen
Gabriele Platscher*	Deutsche Bank Privat- und Geschäftskunden AG Braunschweig
Karin Ruck*	Deutsche Bank AG Bad Soden am Taunus
Prof. Dr. Theo Siegert	Managing Director of the Haen Carstanjen & Söhne Düsseldorf
Tilman Todenhöfer	Managing Partner of Robert Bosch Industrietreuhand KG Stuttgart
Dipl.-Ing. Dr.-Ing. E.h. Jürgen Weber	Chairman of the Supervisory Board of Deutsche Lufthansa AG Hamburg
Leo Wunderlich*	Deutsche Bank AG Mannheim

* Elected by the staff in Germany.

The members of the Management Board accept membership on the Supervisory Boards of other corporations within the limits prescribed by law.

The business address of each member of the Management Board and of the Supervisory Board of Deutsche Bank is Taunusanlage 12, 60325 Frankfurt am Main, Germany.

Financial Year

The financial year of Deutsche Bank is the calendar year.

Auditors

The independent auditors of Deutsche Bank are KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (**"KPMG"**), Marie-Curie-Strasse 30, 60439 Frankfurt am Main, Germany. KPMG audited Deutsche Bank's non-consolidated financial statements for the years

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ended 31 December 2003, 2004 and 2005, which were prepared in accordance with the German Commercial Code (**"HGB"**). In accordance with § 292a HGB HGB in the version effective until 9 December 2004 in connection with Article 2 of the Accounting Law Reform Act (Bilanzrechtsreformgesetz –BilReG) and Article 57 of the Introductory Act for the German Commercial Code (EGHGB), the consolidated financial statements for the years ended 31 December 2003, 2004 and 2005 were prepared in accordance with United States Generally Accepted Accounting Principles (**"U.S. GAAP"**) and audited by KPMG. In each case an unqualified auditor's certificate has been provided.

Litigation

Other than set out herein Deutsche Bank is not, or during the last two financial years has not been involved (whether as defendant or otherwise) in, nor does it have knowledge of any threat of any legal, arbitration, administrative or other proceedings the result of which may have, in the event of an adverse determination, a significant effect on its financial condition presented in this offering document.

IPO Allocation Litigation

Deutsche Bank Securities Inc. (**"DBSI"**), our U.S. broker-dealer subsidiary and its predecessor firms, along with numerous other securities firms, have been named as defendants in over 80 putative class action lawsuits pending in the United States District Court for the Southern District of New York. These lawsuits allege violations of securities and antitrust laws in connection with the allocation of shares in a large number of initial public offerings (**"IPOs"**) by issuers, officers and directors of issuers, and underwriters of those securities. DBSI is named in these suits as an underwriter. The securities cases allege material misstatements and omissions in registration statements and prospectuses for the IPOs and market manipulation with respect to aftermarket trading in the IPO securities. Among the allegations are that the underwriters tied the receipt of allocations of IPO shares to required aftermarket purchases by customers and to the payment of undisclosed compensation to the underwriters in the form of commissions on securities trades, and that the underwriters caused misleading analyst reports to be issued. The antitrust claims allege an illegal conspiracy to affect the stock price based on similar allegations that the underwriters required aftermarket purchases and undisclosed commissions in exchange for allocation of IPO stocks. In the securities cases, the motions to dismiss the complaints of DBSI and others were denied on February 13, 2003. Plaintiffs' motion to certify six "test" cases as class actions in the securities cases was granted on October 13, 2004. On December 5, 2006 the Court of Appeals for the Second Circuit vacated the decision and held that the six cases could not be certified as class actions. In the putative antitrust class action, the defendants' motion to dismiss the complaint was granted on November 3, 2003. On September 28, 2005, the Court of Appeals for the Second Circuit vacated the ruling and remanded the case to the lower court for consideration of alternate grounds for dismissal. On December 7, 2006, the U.S. Supreme Court agreed to hear defendants' appeal of the Second Circuit ruling.

Enron Litigation

Deutsche Bank AG and certain of its affiliates are collectively involved in a number of lawsuits arising out of their banking relationship with Enron Corp., its subsidiaries and certain Enron-related entities (**"Enron"**). These lawsuits include a class action brought on behalf of shareholders of Enron, captioned *Newby v. Enron Corp.* which purported to allege claims against, among others, Deutsche Bank AG and certain of its affiliates under federal securities laws. On June 5, 2006, the Court dismissed all of the claims in the *Newby* action against Deutsche Bank AG and its affiliates. On June 21, 2006, Lead Plaintiff in *Newby* filed a motion requesting the Court to reconsider the dismissal of Deutsche Bank AG and its affiliates from *Newby*. On February 8, 2007, the Court denied Lead Plaintiff's motion for reconsideration.

Also, an adversary proceeding has been brought by Enron in the bankruptcy court against, among others, Deutsche Bank AG and certain of its affiliates. In this proceeding, Enron seeks damages from the Deutsche Bank entities under various common law theories, seeks to avoid certain transfers to the

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Deutsche Bank entities as preferential or fraudulent, and seeks to subordinate certain of the claims made by the Deutsche Bank entities in the Enron bankruptcy.

In addition to *Newby* and the adversary proceeding described above, there are individual actions brought in various courts by Enron investors and creditors alleging federal and state law claims against Deutsche Bank AG and certain of its affiliates.

WorldCom Litigation

Deutsche Bank AG and DBSI were defendants in more than 40 actions filed in federal and state courts arising out of alleged material misstatements and omissions in the financial statements of WorldCom Inc. DBSI was a member of the syndicate that underwrote WorldCom's May 2000 and May 2001 bond offerings, which are among the bond offerings at issue in the actions. Deutsche Bank AG, London branch was a member of the syndicate that underwrote the sterling and euro tranches of the May 2001 bond offering. Plaintiffs were alleged purchasers of these and other WorldCom debt securities. The defendants in the various actions included certain WorldCom directors and officers, WorldCom's auditor and members of the underwriting syndicates for the debt offerings. Plaintiffs alleged that the offering documents contained material misstatements and/or omissions regarding WorldCom's financial condition. The claims against DBSI and Deutsche Bank AG were made under federal and state statutes (including securities laws), and under various common law doctrines. The largest of the actions against Deutsche Bank AG and DBSI was a class action litigation in the U.S. District Court in the Southern District of New York, in which the class plaintiffs are the holders of a significant majority of the bonds at issue. On March 10, 2005, Deutsche Bank AG and DBSI reached a settlement agreement, subject to court approval, resolving the class action claims asserted against them, for a payment of approximately U.S.$325 million. The settlement of the class action claims did not resolve the individual actions brought by investors who chose to opt out of the federal class action. The financial effects of the class action settlement are reflected in our 2004 consolidated financial statements. All of the individual actions have been resolved.

Tax-Related Products

Deutsche Bank AG, along with certain affiliates, and current and former employees (collectively referred to as **"Deutsche Bank"**), have collectively been named as defendants in a number of legal proceedings brought by customers in various tax-oriented transactions. Deutsche Bank provided financial products and services to these customers, who were advised by various accounting, legal and financial advisory professionals. The customers claimed tax benefits as a result of these transactions, and the United States Internal Revenue Service has rejected those claims. In these legal proceedings, the customers allege that, together with Deutsche Bank, the professional advisors improperly misled the customers into believing that the claimed tax benefits would be upheld by the Internal Revenue Service. The legal proceedings are pending in numerous state and federal courts and in arbitration, and claims against Deutsche Bank are alleged under both U.S. state and federal law. Many of the claims against Deutsche Bank are asserted by individual customers, while others are asserted on behalf of a putative customer class. No litigation class has been certified as against Deutsche Bank. Approximately 54 legal proceedings have been resolved and dismissed with prejudice as against Deutsche Bank. Approximately 30 other legal proceedings remain pending as against Deutsche Bank and are currently at various pre-trial stages, including discovery.

The United States Department of Justice (**"DOJ"**) is also conducting a criminal investigation of tax-oriented transactions that were executed from approximately 1997 through 2001. In connection with that investigation, DOJ has sought various documents and other information from Deutsche Bank and has been investigating the actions of various individuals and entities, including Deutsche Bank, in such transactions. In the latter half of 2005, DOJ brought criminal charges against numerous individuals based on their participation in certain tax-oriented transactions while employed by entities other than Deutsche Bank. In the latter half of 2005, DOJ also entered into a Deferred Prosecution Agreement with an accounting firm (the **"Accounting Firm"**), pursuant to which DOJ agreed to defer prosecution of a criminal charge against the Accounting Firm based on its participation in certain tax-oriented transactions

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provided that the Accounting Firm satisfied the terms of the Deferred Prosecution Agreement. On February 14, 2006, DOJ announced that it had entered into a Deferred Prosecution Agreement with a financial institution (the **"Financial Institution"**), pursuant to which DOJ agreed to defer prosecution of a criminal charge against the Financial Institution based on its role in providing financial products and services in connection with certain tax-oriented transactions provided that the Financial Institution satisfied the terms of the Deferred Prosecution Agreement. Deutsche Bank provided similar financial products and services in certain tax-oriented transactions that are the same or similar to the tax oriented transactions that are the subject of the above-referenced criminal charges. Deutsche Bank also provided financial products and services in additional tax-oriented transactions as well. DOJ's criminal investigation is on-going.

In the Matter of KPMG LLP Certain Auditor Independence Issues

On November 20, 2003, the SEC requested Deutsche Bank to produce certain documents in connection with an ongoing investigation of certain auditor independence issues relating to KPMG LLP. Deutsche Bank is cooperating with the SEC in its inquiry. KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (**"KPMG DTG"**), a KPMG LLP affiliate, is Deutsche Bank's auditor. Aspects of this investigation appear to involve certain tax-oriented transactions among those at issue in the tax-related litigation described above, where Deutsche Bank provided financial products and services and a KPMG LLP affiliate advised the investors. During all relevant periods, including the present, KPMG DTG has confirmed to Deutsche Bank that KPMG DTG was and is "independent" from Deutsche Bank under applicable accounting and SEC regulations.

Kirch Litigation

In May 2002, Dr. Leo Kirch personally and as an assignee initiated legal action against Dr Breuer and Deutsche Bank AG alleging that a statement made by Dr. Breuer (then the Spokesman of Deutsche Bank's Management Board) in an interview with Bloomberg television on February 4, 2002 regarding the Kirch Group was in breach of laws and financially damaging to Kirch. On January 24, 2006 the German Federal Supreme Court sustained the action for the declaratory judgment only in respect of the claims assigned by the PrintBeteiligungs GmbH. Such action does not require a proof of any loss caused by the statement made in the interview. PrintBeteiligungs GmbH is the only company of the Kirch Group which was a borrower of Deutsche Bank. Claims by Kirch personally and by the group holding company, TaurusHolding GmbH & Co. KG, were dismissed. To be awarded a judgment for damages against Deutsche Bank AG, Dr. Kirch would have to file a new lawsuit; in such proceedings he would have to prove that the statement caused financial damages to PrintBeteiligungs GmbH and the amount thereof. Deutsche Bank received a letter claiming damage in the amount of Euro 1.4 billion plus interest. In this letter the causality in respect of basis and scope of damage was not substantiated.

In 2003 Dr. Kirch instituted legal action in the Supreme Court of the State of New York in which he seeks the award of compensatory and punitive damages based upon Dr. Breuer's interview. Upon introduction of additional plaintiffs and defendants and referral to the U.S. District Court for the Southern District of New York, the case was dismissed on September 24, 2004. The plaintiffs appealed this decision. On June 5, 2006, the U.S. Court of Appeals for the Second Circuit partly confirmed the dismissal of the claims and otherwise remanded the case to the court of first instance to decide for the remaining claims the issues of forum non conveniens or res judicata. Thereafter the U.S. District Court for the Southern District of New York dismissed the case on the basis of forum non conveniens. The dismissal has become res judicata.

On December 31, 2005 the KGL Pool GmbH filed a lawsuit against Deutsche Bank and Dr. Breuer. The lawsuit is based on alleged claims assigned from various subsidiaries of the former Kirch Group. The KGL Pool GmbH is also a plaintiff in the above mentioned case in the USA and seeks a declaratory judgment to the effect that Deutsche Bank AG and Dr. Breuer are jointly and severally liable for damages as a result of the interview statement and the behaviour of Deutsche Bank in respect of several subsidiaries of the Kirch Group. Deutsche Bank received a letter claiming damage in the amount of Euro 2 billion plus interest. In this letter the causality in respect of basis and scope of damage was not substantiated.

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Philipp Holzmann AG

Philipp Holzmann AG (**"Holzmann"**) is a major German construction firm which filed for insolvency in March 2002. Deutsche Bank had been a major creditor bank and holder of an equity interest of Holzmann for many decades, and, from April 1997 until April 2000, a former member of Deutsche Bank AG's Management Board was the Chairman of its Supervisory Board. When Holzmann had become insolvent at the end of 1999, a consortium of banks led by Deutsche Bank participated in late 1999 and early 2000 in a restructuring of Holzmann that included the banks' extension of a credit facility, participation in a capital increase and exchange of debt into convertible bonds. The restructuring package amounted to about Euro 1.6 billion in which Deutsche Bank participated with Euro 547 million. In March 2002, Holzmann and several of its subsidiaries, including in particular Imbau Industrielles Bauen GmbH (**"imbau"**), filed for insolvency. As a result of this insolvency, the administrators for Holzmann and for imbau and a group of bondholders have informed Deutsche Bank they are asserting claims against it because of its role as lender to the Holzmann group prior to and after the restructuring and as leader of the consortium of banks which supported the restructuring. The purported claims include claims that amounts repaid to the banks constituted voidable preferences that should be returned to the insolvent entities and claims of lender liability resulting from the banks' support for an allegedly infeasible restructuring. Although Deutsche Bank is in ongoing discussions, several parties filed lawsuits against it.

The administrator for imbau filed a lawsuit against Deutsche Bank in August 2004 alleging that payments (including interest) of Euro 77 million. received by Deutsche Bank in respect of a loan extended to Imbau until 1998 and in connection with a real estate transaction that was part of the restructuring constituted voidable preferences that should be returned to the insolvent entity. Several bondholders filed a lawsuit against Deutsche Bank in December 2005 seeking damages of Euro 53 million because of its allegedly unlawful support of Holzmann's 1999/2000 restructuring. Additionally, Gebema N.V. filed a lawsuit in 2000 seeking compensation for alleged damages of Euro 187 million against Deutsche Bank alleging deficiencies in the offering documents based on which Gebema N.V. had invested in equity and convertible bonds of Holzmann in 1998.

Parmalat Litigation

Following the bankruptcy of the Italian company Parmalat, the Special Administrator of Parmalat, Mr. Enrico Bondi, is suing Deutsche Bank for damages totaling Euro 2.2 billion for facilitating the insolvency offense of delaying the filing of a petition in insolvency allegedly committed by Parmalat's former management and supervisory board. There are two separate complaints and they allege that by managing and/or underwriting the issuance of Parmalat bonds in 2003 and entering into certain derivative transactions, Deutsche Bank assisted Parmalat by providing liquidity in order to enable Parmalat to meet its short term liabilities/obligations. It is alleged that Deutsche Bank knowingly helped Parmalat to continue its business for several months until December 2003, despite being aware of the true financial situation of the company. Parmalat reserves the right to increase the amount of damages sought. The damages currently requested are, it is claimed, equal to the loss creditors of Parmalat incurred in the second half of 2003.

Also in connection with the Parmalat insolvency, Mr. Bondi has already brought two claw-back actions for a total of Euro 177 million against Deutsche Bank SpA.

General

Due to the nature of its business, Deutsche Bank and its subsidiaries are involved in litigation, arbitration and regulatory proceedings in Germany and in a number of jurisdictions outside Germany, including the United States, arising in the ordinary course of its businesses. In accordance with applicable accounting requirements, Deutsche Bank Group provides for potential losses that may arise out of contingencies, including contingencies in respect of such matters, when the potential losses are probable and estimable. Contingencies in respect of legal matters are subject to many uncertainties and the outcome of individual matters is not predictable with assurance. Significant judgment is required in assessing probability and making estimates in respect of contingencies, and Deutsche Bank's final liabilities may ultimately be

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materially different. The total liability of the Group recorded in respect of litigation, arbitration and regulatory proceedings is determined on a case-by-case basis and represents an estimate of probable losses after considering, among other factors, the progress of each case, its experience and the experience of others in similar cases, and the opinions and views of legal counsel. Predicting the outcome of litigation matters is inherently difficult, particularly in cases in which claimants seek substantial or indeterminate damages. Although the final resolution of any such matters could have a material effect on the Group's consolidated operating results for a particular reporting period, the Group believes that it should not materially affect its consolidated financial position. In respect of each of the matters specifically described above, each of which consists of a number of claims, it is the Group's belief that the reasonably possible losses relating to such claim in excess of its provisions are either not material or not estimable.

Recent Developments and Outlook

On 1 February 2006 the Supervisory Board of Deutsche Bank extended the appointments of Management Board members Dr. Josef Ackermann and Dr. Tessen von Heydebreck until the general meeting following their 62nd birthdays. Dr. Ackermann's contract will therefore run until the end of the Annual General Meeting in 2010; Dr. von Heydebreck's until the end of the Annual General Meeting in 2007.

With immediate effect the Supervisory Board has also appointed Dr. Ackermann as Chairman of the Management Board (Chief Executive Officer). Henceforth the Management Board of Deutsche Bank will be headed by a chairman who is appointed by the Supervisory Board. Deutsche Bank is thus conforming to national and international practice in the appointment of its Management Board.

On 2 February 2006, Deutsche Bank published the preliminary and unaudited key figures for the fourth quarter and the full year 2005 for its consolidated group.

On 9 March 2006, Deutsche Bank announced that some of the previously published preliminary and unaudited key figures were adjusted as a result of subsequent events after 2 February 2006. Deutsche Bank also stated that the adjusted amounts will be reflected in Deutsche Bank's 2005 Annual Report.

On 23 March 2006, Deutsche Bank published its 2005 Annual Report.

On 1 June 2006, the Annual General Meeting of Deutsche Bank decided that a dividend of EUR 2.50 per share shall be paid for the 2005 financial year. This is an increase of 47 per cent compared with the previous year, when a dividend of EUR 1.70 per share was paid.

On 1 November 2006, Deutsche Bank published its interim report for the third quarter 2006. Deutsche Bank reported income before income taxes of EUR 1.8 billion, and net income of EUR 1.2 billion, for the third quarter 2006. Reported pre-tax return on average active equity was 27%. Per the bank's target definition, which excludes restructuring charges and substantial gains on sale of industrial holdings, pre-tax return on average active equity was 26%, equal to the prior year quarter, while diluted earnings per share for the quarter were EUR 2.45, compared to EUR 1.89 in the prior year quarter.

For the first nine months of 2006, income before income taxes was EUR 6.3 billion. Reported pre-tax return on average active equity was 32%. Pre-tax return on average active equity, per target definition, was also 32%, compared to 28% in the first nine months of 2005. Net income was EUR 4.2 billion, up 37% versus the prior year period. Diluted earnings per share for the first nine months were EUR 8.11, compared to EUR 5.95 in the prior year period.

The publication of the preliminary results for the financial year 2006 is scheduled for 1 February 2007.

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Changes to the Supervisory Board and Management Board

On 2 April 2006, at an extraordinary meeting of the Supervisory Board of Deutsche Bank, Dr Rolf-E. Breuer, Chairman of the Supervisory Board, declared his resignation from the Board, effective 3 May 2006. Dr Breuer said he was stepping down from the Supervisory Board to relieve Deutsche Bank of further discussion regarding him personally following a decision by the German Supreme Court on 24 January 2006. The Supervisory Board accepted Dr Breuer's decision with regret but expressed its respect for his action and thanked him for his valuable work as Chairman and as a long time member of the Management Board, including as Spokesman of the Management Board. Dr Breuer will continue to represent Deutsche Bank in a number of select capacities.

After careful consideration, the Supervisory Board, in agreement with Dr Clemens Boersig, formerly Deutsche Bank's Chief Financial Officer, came to the conclusion that Dr Boersig should move to the Supervisory Board and become its Chairman. As a result, Dr Boersig stepped down from the bank's Management Board at the close of business on 3 May 2006. Dr Boersig had been appointed as a member of the Deutsche Bank Supervisory Board by the Frankfurt Local Court and had been elected as Chairman of the Supervisory Board, effective 4 May 2006. On 1 June 2006, Dr Boersig has been elected to the Supervisory Board by the Annual General Meeting of Deutsche Bank and has been elected as Chairman of the Supervisory Board. The Supervisory Board is convinced that the Chair of the Supervisory Board can only be transferred to someone who, through personal and senior managerial experience, is familiar with the complex nature of a bank with global operations.

In addition, the Supervisory Board has appointed Anthony Di Iorio and Dr Hugo Banziger as new members of the Management Board, effective 4 May 2006. Di Iorio, formerly Group Controller, has assumed the position of Chief Financial Officer while Dr Banziger, formerly Chief Risk Officer for Credit and Operational Risk, has become Chief Risk Officer.

Share buyback program

At the Annual General Meeting on 1 June 2006, Deutsche Bank's shareholders renewed the authorization to buy back up to 10 per cent of shares issued, replacing last year's Annual General Meeting authorization. As a result, the Management Board decided to conclude the current program and to continue share buybacks under the scope of the new buyback program with immediate effect.

Within the concluded share buyback program, which was launched in the third quarter 2005, a total of 35,846,000 shares, or 6.5 per cent of the share capital as at the last Annual General Meeting, had been repurchased at an average price of EUR 87.00, for a total consideration of EUR 3.12 billion. The current inventory in own shares within the buyback program amounts to 18.9 million shares, or 3.6 per cent of shares issued. This inventory is a result of the 33 million shares held at the time of the Annual General Meeting in 2005 plus the repurchases of the concluded program. Thereof, 40 million shares were cancelled in February 2006 and roughly 10 million shares were used to hedge share awards.

Under the new program Deutsche Bank may buy back up to 10 per cent of shares issued, i.e. up to 51,913,234 shares, by 31 October 2007. Deutsche Bank reserves the right to suspend the program in favor of strategic growth initiatives.

The buybacks will again be executed systematically by direct purchases of shares in the spot market and potentially through the use of derivatives. Deutsche Bank intends to use the repurchased shares not only to further reduce its share capital but also to support potential future equity-based compensation programs. The bank also reserves the option to use the repurchased shares for other purposes in accordance with the authorization granted at the Annual General Meeting.

All transactions will be managed in such a way that Deutsche Bank's core capital ratio will not fall below the target range of eight to nine percent. The bank will regularly publish information on the progress of the buyback program.

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Other

In February 2003, the Düsseldorf Prosecutor filed charges against Dr. Ackermann and other former members of the Supervisory Board, members of the Management Board and one manager of Mannesmann AG at the Düsseldorf District Court (*Landgericht Düsseldorf*). The complaint alleges a breach of trust in connection with payments to former members of the Management Board and other managers of Mannesmann AG following the takeover of Mannesmann by Vodafone in spring 2000. On 22 July 2004 the Düsseldorf District Court acquitted every defendant of such charges. The Düsseldorf Prosecutor filed a notice of appeal to the Federal Supreme Court (*Bundesgerichtshof*). On 21 December 2005 the Federal Supreme Court ordered a retrial at the Düsseldorf District Court. On 29 November 2006 the Düsseldorf District Court agreed to discontinue the court proceedings and ordered the defendants to make non-penal payments. No findings of guilt result from this decision.

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TAX CONSIDERATIONS

United States Tax Considerations

General

To ensure compliance with Internal Revenue Service Circular 230, investors are hereby notified that: (a) any discussion of U.S. federal tax issues contained or referred to in this Offering Circular is not intended or written to be used, and cannot be used, by investors for the purpose of avoiding penalties that may be imposed on them under the Code; (b) such discussion is written to support the promotion or marketing of the transactions or matters addressed herein; and (c) prospective investors should seek advice based on their particular circumstances from an independent tax adviser.

The following is a summary of certain of the United States federal income tax consequences of an investment in the Notes by purchasers that acquire their Notes in the initial offering. The discussion and the opinions referenced below are based upon laws, regulations, rulings, and decisions currently in effect, all of which are subject to change, possibly with retroactive effect. Prospective investors should note that no rulings have been or are expected to be sought from the Internal Revenue Service (the "**IRS**") with respect to any of the United States federal income tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions. Further, the following summary does not deal with all United States federal income tax consequences applicable to any given investor, nor does it address the United States federal income tax considerations applicable to all categories of investors, some of which may be subject to special rules, such as Non-U.S. Holders (defined below), financial institutions, REITs, RICs, insurance companies, tax-exempt organizations, dealers or traders in securities, currencies or notional principal contracts, persons that own (or are deemed to own) 10% or more of the voting shares (or interests treated as equity) of the issuer, partnerships, pass-through entities or persons who hold the Notes through partnerships or pass-through entities, S corporations, estates and trusts, investors that hold their Notes as part of a hedge, straddle, synthetic security or an integrated or conversion transaction, or investors whose "functional currency" is not the U.S. dollar. Furthermore, it does not address alternative minimum tax consequences, or the indirect effects on investors of equity interests in either a U.S. Holder (as defined below) or a Non-U.S. Holder. In addition, this summary is generally limited to investors that will hold their Notes as "capital assets" within the meaning of Section 1221 of the Code. Investors should consult their own tax advisors to determine the United States federal, state, local, and other tax consequences of the purchase, ownership, and disposition of the Notes.

As used herein, "**U.S. Holder**" or means a beneficial holder of a Note that is an individual citizen or resident of the United States for United States federal income tax purposes, a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), an estate the income of which is subject to United States federal income taxation regardless of its source, or a trust for which a court within the United States is able to exercise primary supervision over its administration and for which one or more United States persons (as defined in the Code) have the authority to control all of its substantial decisions or a trust that has made a valid election under U.S. Treasury Regulations to be treated as a domestic trust. "**Non-U.S. Holder**" means any holder (or beneficial holder) of a Note that is not a U.S. Holder. If a partnership holds Notes, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. Partners of partnerships holding Notes should consult their own tax advisors.

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U.S. Federal Income Tax Consequences to the Issuer

Upon the issuance of the Notes, Allen & Overy LLP, special U.S. tax counsel to the Issuer, will deliver an opinion generally to the effect that under current law, and assuming compliance with the Indenture (and certain other documents) and based on certain factual representations made by the Issuer and the Collateral Manager, although the matter is not free from doubt, the Issuer will not be engaged in the conduct of a trade or business in the United States. Accordingly, the Issuer does not expect to be subject to net income taxation in the United States. Prospective investors should be aware that opinions of counsel are not binding on the IRS and there can be no absolute assurance that the IRS will not seek to treat the Issuer as engaged in a U.S. trade or business. If the IRS were to successfully characterize the Issuer as engaged in such a trade or business, among other consequences, the Issuer would be subject to net income taxation in the United States (as well as the branch profits tax) on its income. The levying of such taxes would materially affect the Issuer's financial ability to pay principal and interest on the Notes.

The Issuer intends to acquire the Underlying Assets, the interest on which, and any gain from the Disposition thereof, is expected not to be subject to United States federal withholding tax or withholding tax imposed by other countries (unless subject to being "grossed up"). The Issuer will not, however, make any independent investigation of the circumstances surrounding the issuance of the individual assets comprising the Underlying Assets and, thus, there can be no absolute assurance that in every case, payments will be received free of withholding tax. If the Issuer is a CFC (defined below), the Issuer would incur United States withholding tax on interest received from a related United States person.

In addition, it is not expected that the Issuer will derive material amounts of any other items of income that will be subject to United States withholding taxes.

If withholding or deduction of any taxes from payments is required by law in any jurisdiction, the Issuer shall be under no obligation to make any additional payments to any holder in respect of such withholding or deduction.

Notwithstanding the foregoing, any commitment fee, facility fee and similar fee that the Issuer earns may be subject to a 30% withholding tax and any lending fees received under a securities lending agreement may also be subject to withholding tax.

Classification of the Notes

The Issuer has agreed and, by its acceptance of a Note, each Noteholder will be deemed to have agreed, to treat each of the Notes as debt of the Issuer for United States federal income tax purposes, unless required by law. Upon the issuance of the Notes, Allen & Overy LLP will deliver an opinion generally to the effect that assuming compliance with the Indenture (and certain other documents) and based on certain factual representations made by the Issuer and the Initial Purchaser, the Notes, when issued, will be characterized as debt of the Issuer for United States federal income tax purposes. Prospective investors should be aware that opinions of counsel are not binding on the IRS, and there can be no assurance that the IRS will not seek to characterize any Class of Notes as other than indebtedness. Except as provided under "—Alternative Characterization of the Notes," below, the balance of this discussion assumes that the Notes will be characterized as debt of the Issuer for United States federal income tax purposes unless required by law.

For United States federal income tax purposes, the Issuer, and not the Co-Issuer, will be treated as the issuer of the Notes.

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Payments of Interest on the Notes.

Generally, stated interest on a Note that is considered "unconditionally payable" (as described below) will be ordinary income taxable to a U.S. Holder when received or accrued in accordance with such U.S. Holder's method of accounting for U.S. federal income tax purposes. Such interest income will be treated as foreign source income for foreign tax credit purposes. If the "stated redemption price at maturity" (**"SRPM"**) of a Note exceeds the "issue price" of such Note by more than a "de minimis amount," then the excess of SRPM over the issue price may constitute original issue discount (**"OID"**). The SRPM of a debt instrument is generally the sum of all payments provided by the debt instrument other than "qualified stated interest" payments. The issue price is the first price at which a substantial amount of a debt instrument is sold to the public. The de minimis amount is any amount less than one-fourth of one percent of a debt instrument's SRPM multiplied by the number of complete years to maturity. Qualified stated interest is generally interest paid on a debt instrument that is unconditionally payable at least annually at a single fixed rate.

The Treasury Regulations provide that, for purposes of determining whether a debt instrument is issued with OID, stated interest must be included in the SRPM of the debt instrument if such interest is not "unconditionally payable." Interest is considered "unconditionally payable" if reasonable legal remedies exist to compel timely payment or terms and conditions of the debt instrument make the likelihood of late payment (other than late payment that occurs within a reasonable grace period) or non-payment (ignoring the possibility of non-payment due to default, insolvency or similar circumstances) a remote contingency. The Issuer intends, pursuant to its interpretation of the foregoing rules, to take the position that payments of interest on the Class A-1a Notes, Class A-1b Notes, Class A-2 Notes and Class B Notes are considered unconditionally payable, and thus not included in the SRPM of such Class A-1a Notes, Class A-1b Notes, Class A-2 Notes and Class B Notes and should be treated as "qualified stated interest". Because the interest payments on the Class C Notes, Class D Notes and Class E Notes are subject to deferral (and the possibility of such deferral may not be remote within the meaning of the Treasury Regulations), the Issuer intends to take the position that all interest (including interest on accrued but unpaid interest) payable on the Class C Notes, Class D Notes and Class E Notes should be included in the SRPM and should be treated as issued with OID. However, because there is no authority addressing when the likelihood of a contingency such as the deferral of interest should be considered not "remote", there can be no assurance the IRS will agree with this position.

The U.S. federal income tax treatment of the Class C Notes, the Class D Notes and the Class E Notes under the OID rules is uncertain. If the Class C Notes, the Class D Notes and the Class E Notes are issued at an issue price equal to their principal amount, the Issuer intends not to calculate OID under the PAC Method referred to below, and instead to take the position that the amount of OID that accrued on such Class C Notes, Class D Notes and Class E Notes in each accrual period is equal to the amount of interest (including any Deferred Interest with respect to the Class C Notes, the Class D Notes and the Class E Notes) that accrues on such Class C Notes, Class D Notes and Class E Notes during such period. Unless the Class C Notes, the Class D Notes and the Class E Notes are issued at an issue price equal to their principal amount, in including stated interest in the SRPM of the Class C Notes, the Class D Notes and the Class E Notes, the Issuer intends, absent definitive guidance, to treat the Class C Notes, the Class D Notes and the Class E Notes as subject to an income accrual method analogous to the methods applicable to debt instruments having payments that are contingent as to amount but not as to time and debt instruments whose payments are subject to acceleration (prescribed by section 1272(a)(6) of the Code) using an assumption as to the expected prepayments on the Class C Notes, the Class D Notes and the Class E Notes (the **"PAC Method"**). As such, accruals of any such additional OID will generally be based upon the weighted average life of such Class C Notes, Class D Notes and Class E Notes rather than the stated maturity. Prospective Investors should consult their own tax advisors

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regarding the application of the OID rules to the Class C Notes, the Class D Notes and the Class E Notes and the tax characterization and treatment of payments on such Notes.

Sale, Exchange or Retirement of the Notes.

A U.S. Holder's tax basis in a Note will generally equal its cost, plus any accrued OID, reduced by the amount of any payments received by the U.S. Holder with respect to a Note that are not qualified stated interest payments as described above. A U.S. Holder will generally recognize gain or loss on the sale, exchange or retirement of a Note equal to the difference between the amount realized and the tax basis of the Note. That gain or loss will be a capital gain or loss and generally will be treated as from sources within the United States. Prospective investors should consult their own tax advisors with respect to the treatment of capital gains (which may be taxed at lower rates than ordinary income for taxpayers that are individuals, trusts or estates and that held a Senior Debt Note for more than one year) and capital losses (the deductibility of which is subject to limitations).

If any Class of Notes were considered "contingent payment debt instruments" ("**CPDIs**") within the meaning of Treasury Regulation section 1.1275-4, then, among other consequences, gain on the sale of such Notes that might otherwise be capital gain would be ordinary income. Although the Issuer does not intend to treat the Notes as CPDIs, prospective investors should consult their own tax advisors regarding the possible characterization of the Notes as CPDIs.

Alternative Characterization of the Notes

Notwithstanding tax counsel's opinion, U.S. Holders should recognize that there is some uncertainty regarding the appropriate classification of instruments such as the Notes. It is possible, for example, that the IRS may contend that a Class of the Notes should be treated as equity interests (or as part-debt, part-equity) in the Issuer. Such a recharacterization might result in materially adverse tax consequences to U.S. Holders.

If U.S. Holders of a Class of Notes were treated as owning equity interests in the Issuer, interest payments would be treated as dividends (to the extent of current and accumulated earnings). Further, while not certain, interest on the Notes might accrue (as dividends) prior to payment in a manner akin to the accrual of OID. No dividends received deduction would apply to any of those dividends.

Further, the Issuer is a passive foreign investment company, or PFIC. If U.S. Holders were treated as owning equity interests in the Issuer, U.S. Holders generally will be considered United States shareholders in a PFIC. Under the rules relating to PFICs, a United States shareholder of a PFIC that receives an "excess distribution" must allocate the excess distribution ratably to each day in the taxpayer's holding period for such equity, and must pay a deemed deferred tax amount with respect to each prior year in the taxpayer's holding period. The total excess distribution for any taxable year is the excess of (a) the total distributions for the year over (b) 125 percent of the average amount received in respect of such stock by the taxpayer during the three preceding years (or, if shorter, the U.S. Holder's holding period for such equity). In addition, any gain on the disposition of such equity in a PFIC would be treated as though it were an excess distribution. The deferred tax amount is equal to the sum of (a) the aggregate increases in taxes (computed at the maximum marginal rate) for each year in the taxpayer's holding period before the current year that would result from allocating the excess distributions back over the taxpayer's holding period ratably and (b) interest on those increases.

In order to avoid the application of the PFIC rules, each U.S. Holder should consider making (and consult with its tax advisors regarding the effectiveness and usefulness of making) a qualified electing fund election (the "**QEF election**") provided in Section 1295 of the Code on a "protective" basis (although

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such protective election may not be respected by the IRS because current regulations do not specifically authorize that particular election). In general, a QEF election should be made on or before the due date for filing a U.S. Holder's federal income tax return for the first taxable year for which it held a Note. In lieu of the PFIC rules discussed above, a U.S. Holder that makes a valid QEF election with respect to a Note that is recharacterized as an equity interest in the Issuer will, in very general terms, be required to include its *pro rata* share of the Issuer's ordinary income and net capital gains (unreduced by any prior year losses) in income as ordinary income and long-term capital gain, respectively, for each taxable year and pay tax thereon (even if the amount of that income is not the same as the interest payment, if any, made or OID, if any accruing, on the Note during that period). In general, however, payments of interest on the Note that reflect income on which the U.S. Holder has already paid taxes under the QEF election, will not be further taxable to the U.S. Holder. While there can be no assurance that the IRS would respect the following allocation, the Issuer intends to allocate such ordinary income and net capital gains in a manner designed to cause any Class of Notes that is recharacterized as equity in the Issuer to have approximately the same amount of income as would have accrued on that Class had it been respected as debt.

In the event that any Class of Notes is recharacterized as voting equity in the Issuer and certain other conditions are met, the Issuer may be classified as a controlled foreign corporation (a "**CFC**") with respect to U.S. Holders that own at least 10% of the Issuer's voting equity. In such event, Noteholders would, in general, be taxed in a similar manner as if they had made the QEF election described above (although some income that would otherwise be capital, may be ordinary).

Information Reporting Requirements

Under United States federal income tax law and regulations, certain categories of U.S. Holders must file information returns with respect to their investment in, or involvement in, a foreign corporation. These reporting requirements apply to both taxable and tax-exempt U.S. Holders. Penalties for failure to file certain of these information returns are severe. Purchasers of the Notes should consult with their own tax advisors regarding the necessity of filing information returns.

If requested by the Issuer, each holder will be required to provide the Issuer with the name and status of each beneficial owner of a Note that is a U.S. Holder.

Non-U.S. Holders

Assuming that (i) the Notes are treated as debt of a non-United States corporation or (ii) if the Notes are treated as equity in a non-United States corporation, that such corporation is not engaged in a U.S. trade or business, a Non-U.S. Holder of a Note that has no connection with the United States and is not related, directly or indirectly, with the Issuer or the holders of the Issuer's equity or the Preferred Shares, will not be subject to U.S. withholding tax on interest payments. Non-U.S. Holders may be required to make certain tax representations regarding the identity of the beneficial owner of the Notes in order to receive payments free of withholding.

Backup Withholding and Information Reporting

Backup withholding and information reporting requirements may apply to certain payments on the Notes (including OID, if any) and proceeds of the sale, exchange, redemption or other disposition of the Notes to U.S. Holders. The Issuer, its agent, a broker, or any paying agent, as the case may be, may be required to withhold tax from any payment that is subject to backup withholding if the U.S. Holder fails to furnish the U.S. Holder's taxpayer identification number (typically by providing a completed and executed IRS Form W-9), to certify that such U.S. Holder is not subject to backup withholding, or to otherwise

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comply with the applicable requirements of the backup withholding rules. Certain U.S. Holders (including, among others, corporations) are not subject to the backup withholding and information reporting requirements. Non-U.S. Holders may be required to comply with applicable certification procedures to establish that they are not U.S. Holders in order to avoid the application of such information reporting requirements and backup withholding. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to a holder generally may be claimed as a credit against such holder's U.S. federal income tax liability, *provided* that the required information is timely furnished to the IRS. Prospective investors in the Notes should consult their own tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

IRS Disclosure Reporting Requirements

Recently promulgated U.S. Treasury Regulations (the **"Disclosure Regulations"**) meant to require the reporting of certain tax shelter transactions (**"Reportable Transactions"**) could be interpreted to cover transactions generally not regarded as tax shelters. Under the Disclosure Regulations it may be possible that certain transactions with respect to the Notes may be characterized as Reportable Transactions requiring a holder to disclose such transaction, such as a sale, exchange, retirement or other taxable disposition of a Note that results in a loss that exceeds certain thresholds and other specified conditions are met. Prospective investors in the Notes should consult with their own tax advisers to determine the tax return obligations, if any, with respect to an investment in the Notes, including any requirement to file IRS Form 8886 (Reportable Transaction Statement).

THE U.S. FEDERAL INCOME TAX DISCUSSION SET FORTH ABOVE IS INCLUDED FOR GENERAL INFORMATION ONLY AND MAY NOT BE APPLICABLE DEPENDING UPON A NOTEHOLDER'S PARTICULAR SITUATION. PROSPECTIVE INVESTORS IN THE NOTES SHOULD CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE NOTES, INCLUDING THE TAX CONSEQUENCES UNDER STATE, LOCAL, NON-U.S. AND OTHER TAX LAWS AND THE POSSIBLE EFFECTS OF CHANGES IN U.S. FEDERAL OR OTHER TAX LAWS.

Cayman Islands Tax Considerations

The following discussion of certain Cayman Islands income tax consequences of an investment in the Notes is based on the advice of Maples and Calder as to Cayman Islands law. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It assumes that the Issuer will conduct its affairs in accordance with assumptions made by, and representations made to, counsel. 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:

(a) payments of principal and interest in respect of the Notes will not be subject to taxation in the Cayman Islands and no withholding will be required on such payments to any Holder of a Note and gains derived from the sale of Notes will not be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax; and

(b) the Holder of any Note (or the legal personal representative of such Holder) whose Note is brought into the Cayman Islands may in certain circumstances be liable to pay stamp duty imposed under the laws of the Cayman Islands in respect of such Note.

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The Issuer has been incorporated under the laws of the Cayman Islands as an exempted company with limited liability and, as such, has applied for and obtained an undertaking from the Governor in Cabinet of the Cayman Islands substantially in the following form:

"The Tax Concessions Law
(1999 Revision)
Undertaking as to Tax Concessions

In accordance with Section 6 of the Tax Concessions Law (1999 Revision) the Governor in Cabinet undertakes with Gemstone CDO VII Ltd. (the **"Company"**):

(a) that no law which is hereafter enacted in the Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and

(b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:

(i) on or in respect of the shares, debentures or other obligations of the Company; or

(ii) by way of the withholding in whole or in part of any relevant payment as defined in Section 6(3) of the Tax Concessions Law (1999 Revision).

These concessions shall be for a period of twenty years from the 31st day of October, 2006.

Governor in Cabinet"

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ERISA CONSIDERATIONS

The U.S. Employee Retirement Income Security Act of 1974, as amended (**"ERISA"**), imposes certain duties on persons who are fiduciaries of employee benefit plans (as defined in Section 3(3) of ERISA) subject to Title I of ERISA (**"ERISA Plans"**) and of entities whose underlying assets include assets of ERISA Plans by reason of an ERISA Plan's investment in such entities. These duties include investment prudence and diversification and the requirement that an ERISA Plan's investments be made in accordance with the documents governing the ERISA Plan. The prudence of a particular investment must be determined by the responsible fiduciary of an ERISA Plan by taking into account the ERISA Plan's particular circumstances and liquidity needs and all of the facts and circumstances of the investment, including the availability of a public market for the investment. In addition, certain U.S. federal, state and local laws impose similar duties on fiduciaries of governmental and/or church plans 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 which is subject to fiduciary standards similar to those of ERISA (**"Plan Fiduciary"**), who proposes to cause such a plan or entity to purchase Notes should determine whether, under the general fiduciary standards of ERISA or other applicable law, an investment in the Notes 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 Notes, a Plan 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/or Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the **"Code"**), prohibit certain transactions involving the assets of ERISA Plans or plans described in Section 4975(e)(**1**) and 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) (collectively, "Parties in Interest") having certain relationships to such Plans and entities. A Party in Interest who engages in a non-exempt prohibited transaction may be subject to non-deductible excise taxes and other penalties and liabilities under ERISA and/or the Code.

Each of the Issuer, the Co-Issuer, the Initial Purchaser 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 with respect to Plans. Accordingly, prohibited transactions (within the meaning of Section 406 of ERISA and Section 4975 of the Code) may arise if Notes are acquired by a Plan with respect to which any of the Issuer, the Co-Issuer, the Initial Purchaser, the Collateral Manager, the obligors on the Underlying Assets or any of their respective Affiliates is a Party in Interest. In addition, if a Party in Interest with respect to a Plan owns or acquires a beneficial interest in the Issuer or the Co-Issuer, the acquisition or holding of Notes by or on behalf of the Plan could be considered to constitute an indirect prohibited transaction. Moreover, the acquisition or holding of Notes or other indebtedness issued by the Issuer or the Co-Issuer by or on behalf of a Party in Interest with respect to a Plan which 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.

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Certain exemptions from the prohibited transaction rules could be applicable, however, depending in part upon the type of Plan Fiduciary making the decision to acquire a Note and the circumstances under which such decision is made. Included among these exemptions are U.S. Department of Labor (**"DOL"**) PTE 96-23, regarding investments by certain "in-house asset managers"; PTE 95-60, regarding investments by insurance company general accounts; PTE 90-1, regarding investments by insurance company pooled separate accounts; PTE 91-38, regarding investments by bank collective investment funds; and PTE 84-14, regarding transactions effected by "qualified professional asset managers." Even if the conditions specified in one or more of these exemptions are met, the scope of the relief provided by these exemptions might or might not cover all acts which might be construed as prohibited transactions. If a purchase of Notes were to constitute or result in a non-exempt prohibited transaction, the purchase might have to be rescinded.

In addition, recently enacted legislation (the **"Pension Protection Act of 2006"**) provides a statutory exemption for prohibited transactions between a plan and a Person that is a party in interest (other than a fiduciary or an affiliate that, directly or indirectly, 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 plan, *provided* that there is adequate consideration for the transaction. Prospective investors should consult with their advisors regarding the application of this statutory exemption. Governmental plans and certain church plans, while not subject to the fiduciary responsibility provisions of ERISA or the provisions of Section 4975 of the Code, may nevertheless be subject to local, state or other Federal laws that are similar to the foregoing provisions of ERISA and the Code.

The DOL, the government agency primarily responsible for administering the ERISA fiduciary rules and the prohibited transaction rules under ERISA and Section 4975 of the Code, has issued a regulation (the **"Plan Asset Regulation"**) which, 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. The term "Benefit Plan Investors" is defined in the Plan Asset Regulation, as modified by Section 3(42) of ERISA, to include (i) any employee benefit plan (as defined in Section 3(3) of ERISA) that is subject to Title I of ERISA, (ii) any plan described in Section 4975(e)(1) of the Code that is subject to Section 4975 of the Code, and (iii) any entity whose underlying assets include "plan assets" by reason of any such 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 interest in the entity, 25% or more of the value of any class of equity interests in the entity (excluding the value of any interests held by certain persons, other than Benefit Plan Investors, exercising control over the assets of the entity or providing investment advice to the entity for a fee (such as the Collateral Manager) or any Affiliates of such persons (any such person, a **"Controlling Person"**)) is held by Benefit Plan Investors (the **"25% Threshold"**).

There is little pertinent authority in this area and securities may change character from debt to equity over time due to changing circumstances. Fiduciaries of Plans considering the purchase of Notes should consult their counsel in this regard. However, it is not anticipated that the Class A Notes, the Class B Notes or the Class C Notes will constitute "equity interests" in the Issuers. Based primarily on the unconditional obligation of the Issuers to pay interest and to repay principal by a fixed maturity date and the creditors' remedies available to holders of the Class D Notes and the Class E Notes, it is anticipated that the Class D Notes and the Class E Notes will not constitute "equity interests" in the Issuers, despite their subordinated position in the capital structure of the Issuers. No measures will be taken to restrict investment in the Class D Notes or the Class E Notes by Benefit Plan Investors.

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The sale of any Note to a Plan is in no respect a representation by the Issuer, the Initial Purchaser, 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 TRANSFEREE WILL BE DEEMED TO REPRESENT AND WARRANT THAT EITHER (A) IT IS NOT A PLAN, 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, OR AN ENTITY WHICH IS DEEMED TO HOLD THE ASSETS OF ANY SUCH PLAN PURSUANT TO 29 C.F.R. SECTION 2510.3-101 AS MODIFIED BY SECTION 3(42) OF ERISA, OR OTHERWISE, OR (B) ITS PURCHASE AND OWNERSHIP OF SUCH NOTE WILL NOT RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF A GOVERNMENTAL OR CHURCH PLAN, A NON-EXEMPT VIOLATION OF ANY SUCH SIMILAR U.S. FEDERAL, STATE OR LOCAL LAW).

It should be noted that an insurance company's general account may be deemed to include assets of ERISA Plans under certain circumstances, *e.g.*, where an ERISA Plan purchases an annuity contract issued by such an insurance company, based on the reasoning of the U.S. Supreme Court in *John Hancock Mutual Life Ins. Co. v. Harris Trust and Savings Bank*, 510 U.S. 86 (1993). An insurance company considering the purchase of Notes with assets of its general account as a wholly owned subsidiary thereof should consider such purchase and the insurance company's ability to make the representations described above in light of *John Hancock*, Section 401(c) of ERISA and 29 C.F.R. §2550.401c 1.

The discussion of ERISA and Section 4975 of the Code contained in this Offering Circular, is, of necessity, general, and does not purport to be complete. Moreover, the provisions of ERISA and Section 4975 of the Code are subject to extensive and continuing administrative and judicial interpretation and review. Therefore, the matters discussed above may be affected by future regulations, rulings and court decisions, some of which may have retroactive application and effect.

Tax penalty avoidance

The summary of ERISA considerations contained herein was written to support the promotion and marketing of the Notes, and was not intended or written to be used, and cannot be used, by a taxpayer for the purpose of avoiding any U.S. federal tax penalties that may be imposed. Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

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PLAN OF DISTRIBUTION

The Issuers and the Initial Purchaser will enter into a Note Purchase Agreement (the **"Note Purchase Agreement"**) relating to the offering and sale of the Notes. In the Note Purchase Agreement, the Issuers have agreed to sell to the Initial Purchaser, and the Initial Purchaser will agree to purchase, the entire principal amount of the Notes. The Notes purchased by the Initial Purchaser, if any, will be privately placed with eligible investors by the Initial Purchaser. The obligations of the Initial Purchaser under the Note Purchase Agreement are subject to the satisfaction of certain conditions in the Note Purchase Agreement. The Issuer will pay all fees and expenses in connection with this offering as set forth in the Note Purchase Agreement. Pursuant to the Note Purchase Agreement, the Issuers will agree to indemnify the Initial Purchaser against certain liabilities, including liabilities under the Securities Act, or to contribute to payments it may be required to make in respect thereof.

The Issuer and HBK Investments L.P., as Administrator on behalf of HBK CDO Trust (the **"Original Purchaser"**) will enter into a Subscription Agreement (the **"Subscription Agreement"**) relating to the offering and sale of the Preference Shares. In the Subscription Agreement, the Issuer will agree to sell to the Original Purchaser, and the Original Purchaser will agree to purchase, all of the Preference Shares. The obligations of the Original Purchaser under the Subscription Agreement is subject to the satisfaction of certain conditions in the Subscription Agreement.

The Issuers have been advised by the Initial Purchaser that the Initial Purchaser proposes to sell the Notes (i) to Qualified Purchasers who are also (a) Qualified Institutional Buyers pursuant to Rule 144A or (b) Institutional Accredited Investors pursuant to Section 4(2), and (ii) to certain persons in offshore transactions in reliance on Regulation S under the Securities Act. Buyers of the Notes may be required to make certain representations with respect to their ability to invest in the Notes.

The Notes are offered subject to prior sale, to withdrawal, cancellation or modification of the offer without notice, to the right of the Initial Purchaser to reject any order in whole or in part for any reason and to certain other conditions.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons except in accordance with Regulation S or pursuant to the exemptions from the registration requirements under the Securities Act provided by Rule 144A.

(1) In the Note Purchase Agreement, the Initial Purchaser will represent and agree that it has offered or sold Notes and will offer or sell Notes (a) as part of its distribution at any time and (b) otherwise until 40 days after the completion of the distribution of the Notes, only in accordance with Rule 903 of Regulation S or Rule 144A or any other available exemption from the Registration requirements of the Securities Act. Accordingly, the Initial Purchaser will represent and agree that neither it, its affiliates (if any) nor any persons acting on their behalf have engaged or will engage in any directed selling efforts (within the meaning of Regulation S) with respect to the Notes, and they have complied and will comply with the offering restrictions requirements of Regulation S.

(2) In the Note Purchase Agreement the Initial Purchaser will agree that (i) it will not solicit offers for, or offer or sell, any of the Notes by any form of general solicitation or general advertising (as those terms are used in Regulation D under the Securities Act) or in any

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manner involving a public offering within the meaning of Section 4(2) of the Securities Act, (ii) it will solicit offers for the Notes only from, and will offer the Notes only to, persons that (A) it reasonably believes to be, in the case of offers inside the United States or to U.S. Persons, Qualified Institutional Buyers or Institutional Accredited Investors, who are also Qualified Purchasers or (B) in the case of offers outside the United States, are non-U.S. Persons; and (iii) with respect to offers and sales of the Notes outside the United States that it will not offer, sell or deliver any of the Notes in any jurisdiction outside the United States except under circumstances that will result in compliance with the applicable laws thereof.

United Kingdom

Pursuant to the Purchase Agreement, the Initial Purchaser will represent and agree that:

(1) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or Dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;

(2) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 ("**FSMA**")) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(3) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Cayman Islands

The Initial Purchaser has represented and agreed that it has not made and will not make any invitation to any member of the public in the Cayman Islands to subscribe for any of the Notes (or the Preference Shares).

General

The Issuers and the Collateral Manager extend to each prospective investor the opportunity to ask questions of, and receive answers from, the Issuers and the Collateral Manager concerning the Notes and the terms and conditions of this Offering and to obtain any additional information it may consider necessary in making an informed investment decision and any information necessary in order to verify the accuracy of the information set forth herein, to the extent the Issuers, or the Collateral Manager possesses the same. Requests for such additional information can be directed to Gemstone CDO VII Ltd., c/o Deutsche Bank (Cayman) Limited, P.O. Box 1984, Grand Cayman KY1-1104, Cayman Islands; Gemstone CDO VII Corp., c/o Puglisi & Associates, 850 Library Avenue Suite 204, Newark, Delaware 19711; and HBK Investments L.P., 300 Crescent Court Suite 700, Dallas, Texas 75201, Attention: Fixed Income Division.

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No action has been or will be taken in any jurisdiction that would permit a public offering of the Notes or possession, circulation or distribution of this Offering Circular or any other offering material relating to the Issuer of the Notes in any country or jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material or advertisements in connection with the Notes may be distributed or published, in or from any country or jurisdiction, except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction. Purchasers of the Notes may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the purchase price.

The Notes are newly issued securities for which there currently is no market. The Initial Purchaser has advised the Issuer that the Initial Purchaser presently does not intend to make a market in the Notes.

Certain of the Underlying Assets may have been originally underwritten, originated or placed by the Initial Purchaser or its affiliates. In addition, the Initial Purchaser and its affiliates may have in the past and may in the future perform investment banking services, commercial banking services or other services for issuers of the Underlying Assets.

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TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of Notes or Preference Shares.

Transfer Restrictions Applicable to the Notes

Investor Representations on Original Purchase. Each Original Purchaser of Notes from the Initial Purchaser will be deemed to acknowledge, represent to and agree with the Issuers and the Initial Purchaser as follows:

(1) *No Governmental Approval*. The purchaser understands that the Notes have not been approved or disapproved by the SEC or any other governmental authority or agency of any jurisdiction, nor has the SEC or any other governmental authority or agency passed upon the accuracy or adequacy of this Offering Circular. Any representation to the contrary is a criminal offense.

(2) *Certification Upon Transfer*. If required by the Indenture, the purchaser will, prior to any sale, pledge or other transfer by it of any Note (or any interest therein), obtain from the transferee and deliver to the Issuers, the Trustee and the Note Registrar a duly executed transfer certificate addressed to each of the Issuers, the Trustee and the Note Registrar in the form of the relevant exhibit attached to the Indenture and such other certificates and other information as the Issuers, the Trustee or the Note Registrar may reasonably require to confirm that the proposed transfer substantially complies with the transfer restrictions set forth in the Indenture and described herein.

(3) *Minimum Denominations; Form of Notes*. The purchaser agrees that no Note (or any interest therein) may be sold, pledged or otherwise transferred in a denomination of less than the applicable required minimum denomination set forth in the Indenture and described herein.

(4) *Securities Law Limitations on Resale*. The purchaser understands that the Notes have not been registered under the Securities Act and, therefore, cannot be offered or sold in the United States or to U.S. Persons (as defined in Rule 902(k) under the Securities Act) unless they are registered under the Securities Act or unless an exemption from registration is available. Accordingly, the certificates representing the Notes will bear a legend stating that such Notes have not been registered under the Securities Act and setting forth certain of the restrictions on transfer of the Notes described herein. The purchaser understands that the Issuers have no obligation to register any of the Notes 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) *Qualified Institutional Buyer, Institutional Accredited Investor or Non-U.S. Person Status; Investment Intent*. In the case of a purchaser who takes delivery of Notes in the form of a Restricted Note, (a) it is a Qualified Institutional Buyer or, in respect of certain Original Purchasers, an Institutional Accredited Investor, and (b) is acquiring the Notes for its own account for investment purposes and not with a view to the distribution thereof (except in accordance with Rule 144A). In the case of a purchaser who takes delivery of Notes in the form of a Regulation S Note, (a) it is not a U.S. Person (as defined in Rule 902(k)

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under the Securities Act), (b) it is purchasing such Notes for its own account and not for the account or benefit of a U.S. Person and (c) it understands that prior to the end of the Distribution Compliance Period, interests in a Regulation S Note may be held only through Euroclear or Clearstream.

(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 the Notes, (b) is financially able to bear such risk, (c) in making such investment is not relying on the advice or recommendations of the Initial Purchaser, the Issuer, the Co-Issuer, the Collateral Manager or any of their respective affiliates (or any representative of any of the foregoing) and (d) has determined that an investment in the Notes is suitable and appropriate for it. The purchaser has received, and has had an adequate opportunity to review the contents of, this Offering Circular. The purchaser has had access to such financial and other information concerning the Issuers and the Notes as it has deemed necessary to make its own independent decision to purchase Notes, including the opportunity, at a reasonable time prior to its purchase of Notes, to ask questions and receive answers concerning the Issuers and the terms and conditions of the offering of the Notes.

(7) *Certain Resale Limitations; Rule 144A.* No Note (or any interest therein) may be offered, sold, pledged or otherwise transferred to (a) a transferee acquiring a Restricted Note except (i) 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, (ii) to a transferee that is a Qualified Purchaser, (iii) to a transferee that is not a Flow-Through Investment Vehicle (other than a Qualifying Investment Vehicle), (iv) if such transfer is made in compliance with the certification (if any) and other requirements set forth in the Indenture and (v) if such transfer is made in accordance with any applicable securities laws of any state of the United States and any other relevant jurisdiction or (b) a transferee acquiring an interest in a Regulation S Note except (i) to a transferee that is a non-U.S. Person acquiring such interest in an offshore transaction (within the meaning of Regulation S) in accordance with Rule 904 of Regulation S, (ii) if such transfer is made in compliance with the certification (if any) and other requirements set forth in the Indenture and (iii) if such transfer is made in accordance with any applicable securities laws of any state of the United States and any other relevant jurisdiction.

(8) *Limited Liquidity.* The purchaser understands that there is no market for Notes and that no assurance can be given as to the liquidity of any trading market for Notes and that it is unlikely that a trading market for any of the Notes will develop. The purchaser further understands that, although the Initial Purchaser may from time to time make a market in Notes, the Initial Purchaser is under no obligation to do so and, following the commencement of any market-making, it may discontinue the same at any time. Accordingly, the purchaser must be prepared to hold Notes for an indefinite period of time or until their maturity. The purchaser further understands that the Notes are limited-recourse obligations of the Issuers, payable solely from the Collateral in accordance with the Priority of Payments.

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(9) *Investment Company Act.* The purchaser either (a) is not a U.S. resident (within the meaning of the Investment Company Act) or (b) is a Qualified Purchaser. The purchaser agrees that no sale, pledge or other transfer of a Note (or any interest therein) may be made (m) unless such transfer is made to a transferee who, if a U.S. resident (within the meaning of the Investment Company Act), is a Qualified Purchaser or (n) if such transfer would have the effect of requiring either of the Issuers to register as an investment company under the Investment Company Act. If the purchaser is a U.S. resident that is an entity that would be an investment company but for the exception provided for in Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act (any such entity, an **"excepted investment company"**): (x) all of the beneficial owners of outstanding securities (other than short-term paper) of such entity (such beneficial owners determined in accordance with Section 3(c)(1)(A) of the Investment Company Act) that acquired such securities on or before April 30, 1996 (**"pre-amendment beneficial owners"**); and (y) all pre-amendment beneficial owners of the outstanding securities (other than short-term paper) of any excepted investment company that, directly or indirectly, owns any outstanding securities of such entity, have consented to such entity's treatment as a Qualified Purchaser in accordance with the Investment Company Act.

Each purchaser of a Restricted Note or an interest therein will be deemed to represent at the time of purchase that the purchaser is (a) a Qualified Institutional Buyer (or, in respect of certain Original Purchasers, an Institutional Accredited Investor) and (b) a Qualified Purchaser.

(10) *Certifications Related to Tax Withholding.* The Purchaser understands that the Issuer may require certification acceptable to it (a) to permit the Issuer to make payments to it without, or at a reduced rate of, withholding or (b) 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. The Purchaser agrees to provide any such certification that is requested by the Issuer.

(11) *Tax Treatment.* The Purchaser agrees by its acquisition of the Note or Notes that for purposes of U.S. federal income, state and local income and franchise tax and any other income taxes, it will treat the Notes as indebtedness of Issuer acknowledges that the Issuer will be treated as a corporation and that the Preference Shares will be treated as equity in the Issuer, and agrees to take no action inconsistent with such treatment, unless required by law.

(12) *ERISA.* In the case of each purchaser of a Note either that (i) it is not, and is not 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 within the meaning of Section 4975(e)(1) of the Code that is subject to Section 4975 of the Code, 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 or an entity which is deemed to hold the assets of any such plan pursuant to 29 C.F.R. §2510.3-101, as modified by Section 3(42) of ERISA, or otherwise or (ii) its purchase and ownership of the Notes will not result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of a governmental or church plan, a non-exempt violation of any similar U.S. Federal, state or local law).

(13) *Limitations on Flow-Through Status.* In the case of a purchaser that is a U.S. resident (within the meaning of the Investment Company Act), the purchaser represents that,

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unless the purchaser is a Qualifying Investment Vehicle, (a) if the purchaser 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 Notes and Preference Shares does not exceed 40% of the total assets (determined on a consolidated basis with its subsidiaries) of the purchaser; (b) no person owning any equity or similar interest in the purchaser has the ability to control any investment decision of the purchaser or to determine, on an investment-by-investment basis, the amount of such person's contribution to any investment made by the purchaser; (c) the purchaser was not organized or reorganized for the specific purpose of acquiring Notes or Preference Shares; and (d) no 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 Notes or Preference Shares (any such transferee in (a), (b), (c) or (d) above being herein referred to as a **"Flow-Through Investment Vehicle"**). For this purpose, a **"Qualifying Investment Vehicle"** is an entity as to which all of the beneficial owners of any securities issued by such entity have made, and as to which (in accordance with the document pursuant to which such entity was organized or the agreement or other document governing such securities) each such beneficial owner must require any transferee of any such security to make, to the Issuer or the Issuers, as the case may be, and the Trustee and the Note Registrar (in the case of the Notes) or the Preference Shares Transfer Agent (in the case of the Preference Shares) each of the representations set forth herein and in the Indenture and the Preference Share Paying Agency Agreement required to be made upon transfer of any of the relevant Class of Notes or Preference Shares (with modifications to such representations satisfactory to the Issuer, the Co-Issuer, the Trustee, the Note Registrar and the Preference Share Transfer Agent (as applicable) to reflect the indirect nature of the interests of such beneficial owners in such Notes or Preference Shares. If the purchaser is a Flow-Through Investment Vehicle, the purchaser represents and warrants that either (x) none of the beneficial owners of its securities are U.S. residents (within the meaning of the Investment Company Act) or (y) some or all of the beneficial owners of its securities are U.S. residents (within the meaning of the Investment Company Act) and each such beneficial owner has certified to the purchaser that it is a Qualified Purchaser. If the purchaser is a Flow-Through Investment Vehicle, the purchaser also represents and warrants 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 Notes or Preference Shares).

(14) *Certain Transfers Void.* In the case of a purchaser who takes delivery of Notes in the form of a Restricted Note, the purchaser agrees that (a) any sale, pledge or other transfer of a Note (or any interest therein) made in violation of the transfer restrictions contained in Indenture and described herein, or made based upon any false or inaccurate representation made by the purchaser or a transferee to the Issuer, the Co-Issuer, the Trustee or the Note Registrar will be void and of no force or effect and (b) none of the Issuer, the Co-Issuer, the Trustee and the Note Registrar has any obligation to recognize any sale, pledge or other transfer of a Note (or any interest therein) made in violation of any such transfer restriction or made based upon any such false or inaccurate representation.

The Indenture provides that if, notwithstanding the restrictions on transfer contained therein, either of the Issuers determines that any beneficial owner of a Restricted Note (or any interest therein) (a) is a U.S. Person and (b) is not both a Qualified Institutional Buyer

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(or, in respect of certain Original Purchasers, an Institutional Accredited Investor) and a Qualified Purchaser, then either of the Issuers may require, by notice to such beneficial owner, that such beneficial owner sell all of its right, title and interest to such Restricted Note (or interest therein) to a person that is (i) a non-U.S. Person in a transfer for an interest in a Regulation S Note, or (ii) 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, (y) upon direction from the Collateral Manager or the Issuer, the Trustee, on behalf of and at the expense of the Issuer, shall cause such beneficial owner's interest in such Note to be transferred in a commercially reasonable sale (conducted by an investment bank selected by the Trustee with the consent of the Collateral Manager in accordance with Section 9-610(b) of the Uniform Commercial Code as in effect in the State of New York as applied to securities that are sold on a recognized market or that may decline speedily in value) to a person to whom such Note (or interest therein) may be transferred in accordance with the transfer restrictions set forth in the Indenture and (z) pending such transfer, no further payments will be made in respect of such Note held by such beneficial owner.

(15) *Reliance on Representations, etc.* The purchaser acknowledges that the Issuers, the Initial Purchaser and the Trustee 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 made or deemed to have been made by it in connection with its purchase of Notes are no longer accurate, the purchaser will promptly notify the Issuers, the Initial Purchaser and the Trustee.

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

(17) *USA PATRIOT Act.* To the extent applicable to the Issuers, the Issuers may impose additional transfer restrictions to comply with the USA PATRIOT Act and other similar laws or regulations, and each beneficial owner of a Note is deemed to have agreed to comply with such transfer restrictions. The Issuers shall notify the Trustee, the Note Registrar and the Share Registrar of any such restrictions.

(18) *Legend for Notes.* The purchaser understands and agrees that a legend in substantially the following form will be placed on each certificate representing any Regulation S Global 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 WHICH TAKES DELIVERY OF THIS NOTE (OR INTEREST HEREIN) IN THE FORM OF A RESTRICTED NOTE AND WHOM THE SELLER REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT (**"RULE 144A"**), PURCHASING FOR ITS OWN ACCOUNT, TO WHOM NOTICE IS GIVEN THAT THE RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON THE EXEMPTION FROM SECURITIES ACT REGISTRATION PROVIDED BY RULE 144A OR (2) TO A NON-U.S. PERSON IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE SECURITIES ACT (**"REGULATION S"**), (B) IN COMPLIANCE WITH THE CERTIFICATION AND OTHER REQUIREMENTS SPECIFIED IN THE INDENTURE REFERRED TO HEREIN AND (C) IN ACCORDANCE WITH ANY

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APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND ANY OTHER RELEVANT JURISDICTION.

NEITHER OF THE ISSUERS HAS BEEN REGISTERED UNDER THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE **"INVESTMENT COMPANY ACT"**). NO TRANSFER OF THIS NOTE (OR ANY INTEREST HEREIN) MAY BE MADE (AND NONE OF THE ISSUERS, THE TRUSTEE OR THE NOTE REGISTRAR WILL RECOGNIZE ANY SUCH TRANSFER) IF (A) SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE WHO IS A U.S. RESIDENT (WITHIN THE MEANING OF THE INVESTMENT COMPANY ACT) BUT IS NOT A **"QUALIFIED PURCHASER"** AS DEFINED IN SECTION 2(a)(51)(A) OF THE INVESTMENT COMPANY ACT AND RELATED RULES, A "KNOWLEDGEABLE EMPLOYEE" WITH RESPECT TO EITHER OF THE ISSUERS (WITHIN THE MEANING OF RULE 3c-5 UNDER THE INVESTMENT COMPANY ACT) OR A COMPANY EACH OF WHOSE BENEFICIAL OWNERS IS A QUALIFIED PURCHASER OR A KNOWLEDGEABLE EMPLOYEE (COLLECTIVELY, A **"QUALIFIED PURCHASER"**) TAKING DELIVERY OF THIS NOTE (OR INTEREST HEREIN) IN THE FORM OF A RESTRICTED NOTE, (B) SUCH TRANSFER WOULD HAVE THE EFFECT OF REQUIRING EITHER OF THE ISSUERS TO REGISTER AS AN INVESTMENT COMPANY UNDER THE INVESTMENT COMPANY ACT OR (C) OTHER THAN IN THE CASE OF A TRANSFEREE WHO ACQUIRES AN INTEREST IN A REGULATION S GLOBAL NOTE AFTER THE END OF THE DISTRIBUTION COMPLIANCE PERIOD IN AN OFFSHORE TRANSACTION EFFECTED IN ACCORDANCE WITH RULE 904 OF REGULATION S, SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE WHO IS A U.S. RESIDENT THAT IS A FLOW-THROUGH INVESTMENT VEHICLE OTHER THAN A QUALIFYING INVESTMENT VEHICLE (EACH AS DEFINED IN THE INDENTURE) WHICH TAKES DELIVERY OF THIS NOTE (OR INTEREST HEREIN) IN THE FORM OF A RESTRICTED NOTE.

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 U.S. RESIDENT AND 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.

EACH ORIGINAL PURCHASER AND TRANSFEREE WILL BE DEEMED TO REPRESENT AND WARRANT THAT EITHER (A) IT IS NOT A PLAN, 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, OR AN ENTITY WHICH IS DEEMED TO HOLD THE ASSETS OF ANY SUCH PLAN PURSUANT TO 29 C.F.R. SECTION 2510.3-101, AS MODIFIED BY SECTION 3(42) OF ERISA, OR OTHERWISE OR (B) ITS PURCHASE AND OWNERSHIP OF SUCH NOTE WILL NOT RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF A GOVERNMENTAL OR CHURCH PLAN, A NON-EXEMPT VIOLATION OF ANY SUCH SIMILAR U.S. FEDERAL, STATE OR LOCAL LAW).

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EACH PURCHASER OF THIS NOTE WILL BE DEEMED TO HAVE MADE THE APPLICABLE REPRESENTATIONS AND AGREEMENTS SET FORTH IN THIS LEGEND.

THIS NOTE OR ANY BENEFICIAL INTEREST HEREIN MAY NOT BE HELD AT ANY TIME BY A U.S. PERSON WHO IS NOT A QUALIFIED PURCHASER. THIS NOTE OR ANY BENEFICIAL INTEREST HEREIN MAY BE TRANSFERRED TO A PERSON WHO TAKES DELIVERY IN THE FORM OF AN INTEREST IN A RESTRICTED NOTE OR (IN CERTAIN LIMITED CIRCUMSTANCES) A DEFINITIVE NOTE ONLY (IN THE CASE OF AN INTEREST IN A RESTRICTED GLOBAL NOTE) IN ACCORDANCE WITH APPLICABLE PROCEDURES (AS DEFINED IN THE INDENTURE) AND (IN THE CASE OF A DEFINITIVE NOTE) UPON RECEIPT BY THE NOTE REGISTRAR OF A TRANSFER CERTIFICATE BY THE TRANSFEROR AND THE TRANSFEREE SUBSTANTIALLY IN THE FORM SPECIFIED IN THE INDENTURE.

THIS NOTE (OR AN INTEREST HEREIN) MAY NOT BE TRANSFERRED UNLESS, AFTER GIVING EFFECT TO THE TRANSFER, THE TRANSFEREE IS HOLDING A NOTE WITH AN ORIGINAL PRINCIPAL AMOUNT WHICH IS EQUAL TO U.S.$500,000 OR INTEGRAL MULTIPLES OF U.S.$1,000 IN EXCESS THEREOF.

TO THE EXTENT APPLICABLE TO THE ISSUERS, THE ISSUERS MAY IMPOSE ADDITIONAL TRANSFER RESTRICTIONS TO COMPLY WITH THE USA PATRIOT ACT OR OTHER SIMILAR LAWS AND REGULATIONS, AND EACH BENEFICIAL OWNER OF A NOTE AGREES TO COMPLY WITH SUCH TRANSFER RESTRICTIONS.

THE PURCHASER OF THIS NOTE OR ANY BENEFICIAL INTEREST HEREIN WILL BE DEEMED TO UNDERSTAND AND AGREE THAT IF ANY PURPORTED TRANSFER OF THIS NOTE OR ANY BENEFICIAL INTEREST HEREIN TO A PURCHASER DOES NOT COMPLY WITH THE REQUIREMENTS SET FORTH IN THIS NOTE OR THE INDENTURE, THEN THE PURPORTED TRANSFEROR OF THIS NOTE OR BENEFICIAL INTEREST HEREIN SHALL BE REQUIRED TO CAUSE THE PURPORTED TRANSFEREE TO SURRENDER THE TRANSFERRED NOTE OR ANY BENEFICIAL INTEREST THEREIN IN RETURN FOR A REFUND OF THE CONSIDERATION PAID THEREFOR BY SUCH TRANSFEREE (TOGETHER WITH INTEREST THEREON) OR TO CAUSE THE PURPORTED TRANSFEREE TO DISPOSE OF SUCH NOTE OR BENEFICIAL INTEREST PROMPTLY IN ONE OR MORE OPEN MARKET SALES TO ONE OR MORE PERSONS EACH OF WHOM SATISFIES THE REQUIREMENTS OF THE REPRESENTATIONS, WARRANTIES AND COVENANTS SET FORTH IN THIS LEGEND, AND SUCH PURPORTED TRANSFEROR SHALL TAKE, AND SHALL CAUSE SUCH TRANSFEREE TO TAKE, ALL FURTHER ACTION NECESSARY OR DESIRABLE, IN THE JUDGMENT OF THE ISSUER, TO ENSURE THAT SUCH NOTE OR ANY BENEFICIAL INTEREST THEREIN IS HELD BY PERSONS IN COMPLIANCE THEREWITH. ANY TRANSFER IN VIOLATION OF THE FOREGOING PROVISIONS OF THIS NOTE OR THE INDENTURE WILL BE OF NO FORCE AND EFFECT, WILL BE VOID *AB INITIO*, AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUERS, THE TRUSTEE OR ANY INTERMEDIARY.

The purchaser understands and agrees that a legend in substantially the following form will be placed on each certificate representing any Restricted Global 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

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ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION, AND MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (A) (1) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT (**"RULE 144A"**), PURCHASING FOR ITS OWN ACCOUNT, TO WHOM NOTICE IS GIVEN THAT THE RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON THE EXEMPTION FROM SECURITIES ACT REGISTRATION PROVIDED BY RULE 144A OR (2) TO A NON-U.S. PERSON IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE SECURITIES ACT (**"REGULATION S"**), (B) IN COMPLIANCE WITH THE CERTIFICATION AND OTHER REQUIREMENTS SPECIFIED IN THE INDENTURE REFERRED TO HEREIN AND (C) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND ANY OTHER RELEVANT JURISDICTION.

NEITHER OF THE ISSUERS HAS BEEN REGISTERED UNDER THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE **"INVESTMENT COMPANY ACT"**). NO TRANSFER OF THIS NOTE (OR ANY INTEREST HEREIN) MAY BE MADE (AND NONE OF THE ISSUERS, THE TRUSTEE OR THE NOTE REGISTRAR WILL RECOGNIZE ANY SUCH TRANSFER) IF (A) SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE WHO IS A U.S. RESIDENT (WITHIN THE MEANING OF THE INVESTMENT COMPANY ACT) BUT IS NOT A **"QUALIFIED PURCHASER"** AS DEFINED IN SECTION 2(a)(51)(A) OF THE INVESTMENT COMPANY ACT AND RELATED RULES, A "KNOWLEDGEABLE EMPLOYEE" WITH RESPECT TO THE ISSUER (WITHIN THE MEANING OF RULE 3c-5 UNDER THE INVESTMENT COMPANY ACT) OR A COMPANY EACH OF WHOSE BENEFICIAL OWNERS IS A QUALIFIED PURCHASER OR A KNOWLEDGEABLE EMPLOYEE (COLLECTIVELY, A **"QUALIFIED PURCHASER"**) TAKING DELIVERY OF THIS NOTE (OR INTEREST HEREIN) IN THE FORM OF A RESTRICTED NOTE, (B) SUCH TRANSFER WOULD HAVE THE EFFECT OF REQUIRING EITHER OF THE ISSUERS TO REGISTER AS AN INVESTMENT COMPANY UNDER THE INVESTMENT COMPANY ACT OR (C) SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE WHO IS A U.S. RESIDENT THAT IS A FLOW-THROUGH INVESTMENT VEHICLE OTHER THAN A QUALIFYING INVESTMENT VEHICLE (EACH AS DEFINED IN THE INDENTURE) WHICH TAKES DELIVERY OF THIS NOTE (OR INTEREST HEREIN) IN THE FORM OF A RESTRICTED NOTE.

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.

EACH ORIGINAL PURCHASER AND TRANSFEREE WILL BE DEEMED TO REPRESENT AND WARRANT THAT EITHER (A) IT IS NOT A PLAN, 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, OR AN ENTITY WHICH IS DEEMED TO HOLD THE ASSETS OF ANY SUCH

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PLAN PURSUANT TO 29 C.F.R. SECTION 2510.3-101, AS MODIFIED BY SECTION 3(42) OF ERISA, OR OTHERWISE OR (B) ITS PURCHASE AND OWNERSHIP OF SUCH NOTE WILL NOT RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF A GOVERNMENTAL OR CHURCH PLAN, A NON-EXEMPT VIOLATION OF ANY SUCH SIMILAR U.S. FEDERAL, STATE OR LOCAL LAW).

EACH PURCHASER OF THIS NOTE WILL BE DEEMED TO HAVE MADE THE APPLICABLE REPRESENTATIONS AND AGREEMENTS SET FORTH IN THIS LEGEND.

THIS NOTE OR ANY BENEFICIAL INTEREST HEREIN MAY BE TRANSFERRED TO A PERSON WHO TAKES DELIVERY IN THE FORM OF AN INTEREST IN A REGULATION S NOTE OR (IN CERTAIN LIMITED CIRCUMSTANCES) A DEFINITIVE NOTE ONLY (IN THE CASE OF AN INTEREST IN A REGULATION S GLOBAL NOTE) IN ACCORDANCE WITH APPLICABLE PROCEDURES (AS DEFINED IN THE INDENTURE) AND (IN THE CASE OF A DEFINITIVE NOTE) UPON RECEIPT BY THE NOTE REGISTRAR OF A TRANSFER CERTIFICATE BY THE TRANSFEROR AND THE TRANSFEREE SUBSTANTIALLY IN THE FORM SPECIFIED IN THE INDENTURE.

THIS NOTE (OR AN INTEREST HEREIN) MAY NOT BE TRANSFERRED UNLESS, AFTER GIVING EFFECT TO THE TRANSFER, THE TRANSFEREE IS HOLDING A NOTE WITH AN ORIGINAL PRINCIPAL AMOUNT WHICH IS EQUAL TO U.S.$500,000 OR INTEGRAL MULTIPLES OF U.S.$1,000 IN EXCESS THEREOF.

TO THE EXTENT APPLICABLE TO THE ISSUERS, THE ISSUERS MAY IMPOSE ADDITIONAL TRANSFER RESTRICTIONS TO COMPLY WITH THE USA PATRIOT ACT OR OTHER SIMILAR LAWS AND REGULATIONS, AND EACH BENEFICIAL OWNER OF A NOTE AGREES TO COMPLY WITH SUCH TRANSFER RESTRICTIONS.

THE PURCHASER OF THIS NOTE OR ANY BENEFICIAL INTEREST HEREIN WILL BE DEEMED TO UNDERSTAND AND AGREE THAT IF ANY PURPORTED TRANSFER OF THIS NOTE OR ANY BENEFICIAL INTEREST HEREIN TO A PURCHASER DOES NOT COMPLY WITH THE REQUIREMENTS SET FORTH IN THIS NOTE OR THE INDENTURE, THEN THE PURPORTED TRANSFEROR OF THIS NOTE OR BENEFICIAL INTEREST HEREIN SHALL BE REQUIRED TO CAUSE THE PURPORTED TRANSFEREE TO SURRENDER THE TRANSFERRED NOTE OR ANY BENEFICIAL INTEREST THEREIN IN RETURN FOR A REFUND OF THE CONSIDERATION PAID THEREFOR BY SUCH TRANSFEREE (TOGETHER WITH INTEREST THEREON) OR TO CAUSE THE PURPORTED TRANSFEREE TO DISPOSE OF SUCH NOTE OR BENEFICIAL INTEREST PROMPTLY IN ONE OR MORE OPEN MARKET SALES TO ONE OR MORE PERSONS EACH OF WHOM SATISFIES THE REQUIREMENTS OF THE REPRESENTATIONS, WARRANTIES AND COVENANTS SET FORTH IN THIS LEGEND, AND SUCH PURPORTED TRANSFEROR SHALL TAKE, AND SHALL CAUSE SUCH TRANSFEREE TO TAKE, ALL FURTHER ACTION NECESSARY OR DESIRABLE, IN THE JUDGMENT OF THE ISSUER, TO ENSURE THAT SUCH NOTE OR ANY BENEFICIAL INTEREST THEREIN IS HELD BY PERSONS IN COMPLIANCE THEREWITH. ANY TRANSFER IN VIOLATION OF THE FOREGOING PROVISIONS OF THIS NOTE OR THE INDENTURE WILL BE OF NO FORCE AND EFFECT, WILL BE VOID *AB INITIO*, AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUERS, THE TRUSTEE OR ANY INTERMEDIARY.

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IF, NOTWITHSTANDING THE RESTRICTIONS SET FORTH IN THIS NOTE OR THE INDENTURE, EITHER OF THE ISSUERS DETERMINES THAT ANY HOLDER OF THIS RESTRICTED NOTE OR AN INTEREST HEREIN (I) IS A U.S. PERSON AND (II) IS NOT BOTH A QUALIFIED INSTITUTIONAL BUYER (OR, IN RESPECT OF CERTAIN ORIGINAL PURCHASERS, AN INSTITUTIONAL ACCREDITED INVESTOR) AND A QUALIFIED PURCHASER, THE ISSUERS SHALL REQUIRE, BY NOTICE TO SUCH HOLDER, AS THE CASE MAY BE, THAT SUCH HOLDER SELL ALL OF ITS RIGHT, TITLE AND INTEREST TO THIS NOTE (OR INTEREST HEREIN) TO A PERSON THAT IS (1) A NON-U.S. PERSON IN A TRANSFER FOR AN INTEREST IN A REGULATION S NOTE OR (2) 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 HOLDER FAILS TO EFFECT THE TRANSFER REQUIRED WITHIN SUCH 30-DAY PERIOD, (X) UPON WRITTEN DIRECTION FROM THE COLLATERAL MANAGER OR THE ISSUER, THE TRUSTEE SHALL, AND IS HEREBY IRREVOCABLY AUTHORIZED BY SUCH HOLDER TO, CAUSE ITS INTEREST IN THIS NOTE TO BE TRANSFERRED IN A COMMERCIALLY REASONABLE SALE (CONDUCTED BY AN INVESTMENT BANK SELECTED BY THE TRUSTEE WITH THE CONSENT OF THE COLLATERAL MANAGER IN ACCORDANCE WITH SECTION 9-610(b) OF THE UCC AS APPLIED TO SECURITIES THAT ARE SOLD ON A RECOGNIZED MARKET OR THAT MAY DECLINE SPEEDILY IN VALUE) TO A PERSON THAT CERTIFIES TO THE TRUSTEE, THE ISSUERS AND THE COLLATERAL MANAGER, IN CONNECTION WITH SUCH TRANSFER, THAT SUCH PERSON IS (1) A NON-U.S. PERSON IN A TRANSFER FOR AN INTEREST IN A REGULATION S NOTE OR (2) BOTH A QUALIFIED INSTITUTIONAL BUYER AND A QUALIFIED PURCHASER, AND (Y) PENDING SUCH TRANSFER, NO FURTHER PAYMENTS WILL BE MADE IN RESPECT OF THE INTEREST IN THIS NOTE, AND THE INTEREST IN THIS NOTE SHALL NOT BE DEEMED TO BE OUTSTANDING FOR THE PURPOSE OF ANY VOTE OR CONSENT OF THE NOTEHOLDERS.

Investor Representations on Resale. Except as provided in the remainder of this paragraph, each transferee of a Note will be required to deliver to the Issuers, the Trustee and the Note Registrar a duly executed transferee certificate in the form of the relevant exhibit attached to the Indenture and such other certificates and other information as the Issuer, the Co-Issuer, the Trustee or the Note Registrar may reasonably require to confirm that the proposed transfer complies with the transfer restrictions contained in this Offering Circular. An owner of a beneficial interest in a Regulation S Global Note may transfer such interest in the form of a beneficial interest in such Regulation S Global Note without the provision of written certification, *provided* that such transfer is not made to a U.S. Person or for the account or benefit of a U.S. Person and is effected, prior to the expiration of the Distribution Compliance Period, through Euroclear or Clearstream or, after the expiration of the Distribution Compliance Period, through a clearing system other than Euroclear or Clearstream, in an offshore transaction as required by Regulation S and only in accordance with the Applicable Procedures. An owner of a beneficial interest in a Restricted Global Note may transfer such interest in the form of a beneficial interest in such Restricted Global Note without the provision of written certification if the Transferee is a Qualified Institutional Buyer that is also a Qualified Purchaser.

Pursuant to such transferee certificate, (a) the transferee will acknowledge, represent to and agree with the Issuers, the Trustee and the Note Registrar as to the matters set forth in each of paragraphs (1) through (18) above (other than paragraphs (5), (6) and (8) above) as if each reference therein to "the purchaser" were instead a reference to the transferee and (b) further represents to and agrees with the Issuers, the Trustee and the Note Registrar as follows:

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(1) In the case of a transferee who takes delivery of Restricted Notes, it (a) is a U.S. Person that is both (i) a Qualified Institutional Buyer and (ii) a Qualified Purchaser; (b) it will provide written notice of the foregoing, and of any applicable restrictions on transfer, to any transferee; (c) is aware that the sale to it is being made in reliance on Rule 144A; and (d) is acquiring such Notes for its own account. In the case of a transferee who takes delivery of Regulation S Notes, it (u) is a non-U.S. Person acquiring such Notes in an offshore transaction in accordance with Rule 904 of Regulation S, (v) is acquiring such Notes for its own account, (w) is not acquiring, and has not entered into any discussions regarding its acquisition of, such Notes while it is in the United States or any of its territories or possessions, (x) understands that such Notes are being sold without registration under the Securities Act by reason of an exemption that depends, in part, on the accuracy of these representations, (y) understands that such Notes may not, absent an applicable exemption, be transferred without registration and/or qualification under the Securities Act and applicable state securities laws and the laws of any other applicable jurisdiction, and (z) understands that prior to the end of the Distribution Compliance Period, interests in a Regulation S Global Note may only be held through Euroclear or Clearstream.

(2) It acknowledges that the foregoing acknowledgements, representations and agreements will be relied upon by the Issuers, the Trustee and the Note Registrar for the purpose of determining its eligibility to purchase Notes. It agrees to provide, if requested, any additional information that may be required to substantiate its status as a Qualified Institutional Buyer or under the exception provided pursuant to Section 3(c)(7) of the Investment Company Act, to determine compliance with ERISA and/or Section 4975 of the Code or to otherwise determine its eligibility to purchase Notes.

Transfer Restrictions Applicable to the Preference Shares

Investor Representations on Original Purchase. The Original Purchaser of Preference Shares will be required to acknowledge, represent to and agree with the Issuer as follows:

(1) *No Governmental Approval.* The purchaser understands that the Preference Shares have not been approved or disapproved by the SEC or any other governmental authority or agency of any jurisdiction, nor has the SEC or any other governmental authority or agency passed upon the accuracy or adequacy of this Offering Circular. Any representation to the contrary is a criminal offense.

(2) *Certification Upon Transfer.* If required by the Preference Share Paying Agency Agreement, the purchaser will, prior to any sale, pledge or other transfer by it of any Preference Shares (or any interest therein), obtain from the transferee and deliver to the Issuer and the Preference Share Registrar a duly executed transferee certificate addressed to each of the Administrator or the Issuer in the form of the relevant exhibit attached to the Preference Share Paying Agency Agreement and such other certificates and other information as the Issuer or the Preference Share Registrar may reasonably require to confirm that the proposed transfer substantially complies with the transfer restrictions contained in this Offering Circular and the Preference Share Paying Agency Agreement.

(3) *Minimum Lots and Original Capital Contributions; Form of Preference Shares.* The purchaser agrees that no Preference Shares (or any interest therein) may be sold, pledged or otherwise transferred unless such transfer is done in minimum lots of 200

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shares. In addition, the purchaser understands that Rule 144A Preference Shares will be issued in fully registered, definitive form and will be transferable only by delivery of the certificates representing such Preference Shares.

(4) *Securities Law Limitations on Resale.* The purchaser understands that the Preference Shares have not been registered under the Securities Act and, therefore, cannot be offered or sold in the United States or to U.S. Persons (as defined in Rule 902(k) promulgated under the Securities Act) unless they are registered under the Securities Act or unless an exemption from registration is available. Accordingly, the certificates representing the Preference Shares will bear a legend stating that such Preference Shares have not been registered under the Securities Act and setting forth certain of the restrictions on transfer of the Preference Shares described herein. The purchaser understands that the Issuer has no obligation to register any of the Preference Shares 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 Preference Share Paying Agency Agreement).

(5) *Qualified Institutional Buyer, Institutional Accredited Investor or Non-U.S. Person Status; Investment Intent.* In the case of a purchaser who takes delivery of Rule 144A Preference Shares, it is (a) a Qualified Institutional Buyer or, in respect of certain Original Purchasers, an Institutional Accredited Investor, and (b) is acquiring the 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 who takes delivery of Regulation S Global Preference Shares, (a) it is not a U.S. Person (as defined in Rule 902(k) under the Securities Act), (b) it is purchasing such Preference Shares for its own account and not for the account or benefit of a U.S. Person and (c) it understands that prior to the end of the Distribution Compliance Period, interests in a Regulation S Global Preference Share may only be held through Euroclear or Clearstream.

(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 Preference Shares, (b) is financially able to bear such risk, (c) in making such investment is not relying on the advice or recommendations of the 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 Preference Shares is suitable and appropriate for it. The purchaser has received, and has had an adequate opportunity to review the contents of, this Offering Circular. The purchaser has had access to such financial and other information concerning the Issuer, the Preference Shares as it has deemed necessary to make its own independent decision to purchase Preference Shares, including the opportunity, at a reasonable time prior to its purchase of Preference Shares, to ask questions and receive answers concerning the Issuer and the terms and conditions of the offering of the Preference Shares.

(7) *Certain Resale Limitations; Rule 144A.* No Preference Shares (or any interest therein) may be offered, sold, pledged or otherwise transferred to (a) a transferee acquiring Rule 144A Preference Shares except (a)(i) to a transferee whom the seller reasonably believes is a Qualified Institutional Buyer, purchasing for its own account, to whom notice

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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, (ii) to a transferee that is a Qualified Purchaser, (iii) to a transferee that is not a Flow-Through Investment Vehicle (other than a Qualifying Investment Vehicle), (iv) if such transfer is made in compliance with the certification (if any) and other requirements set forth in the Issuer Charter and (v) if such transfer is made in accordance with any applicable securities laws of any state of the United States and any other relevant jurisdiction or (b) a transferee acquiring an interest in a Regulation S Global Preference Share except (i) to a transferee that is a non-U.S. Person acquiring such interest in an offshore transaction (within the meaning of Regulation S) in accordance with Rule 904 of Regulation S, (ii) to a transferee (other than any transferee who acquires an interest in a Regulation S Global Preference Share after the end of the Distribution Compliance Period in an offshore transaction in accordance with Rule 904 of Regulation S) that is not a U.S. resident (within the meaning of the Investment Company Act) unless such transferee is a Qualified Purchaser, (iii) to a transferee (other than any transferee who acquires an interest in a Regulation S Global Preference Share after the end of the Distribution Compliance Period in an offshore transaction in accordance with Rule 904 of Regulation S) that is not a U.S. resident (within the meaning of the Investment Company Act) or a transferee that is not a Flow-Through Investment Vehicle (other than a Qualifying Investment Vehicle), (iv) if such transfer is made in compliance with the other requirements set forth in the Issuer Charter and (v) if such transfer is made in accordance with any applicable securities laws of any state of the United States and any other relevant jurisdiction.

(8) *Limited Liquidity.* The purchaser understands that there is no market for Preference Shares and that no assurance can be given as to the liquidity of any trading market for Preference Shares and that it is unlikely that a trading market for any of the Preference Shares will develop. Accordingly, the purchaser must be prepared to hold Preference Shares for an indefinite period of time or until their maturity.

(9) *Investment Company Act.* The purchaser either (a) is not a U.S. resident (within the meaning of the Investment Company Act) or (b) is a Qualified Purchaser. The purchaser agrees that no sale, pledge or other transfer of Preference Shares (or any interest therein) may be made (a) unless such transfer is made to a transferee who, if a U.S. resident (within the meaning of the Investment Company Act), is a Qualified Purchaser or (b) if such transfer would have the effect of requiring the Issuer or the Collateral to register as an investment company under the Investment Company Act. If the purchaser is a U.S. resident that is an entity that would be an investment company but for the exception provided for in Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act (any such entity, an "excepted investment company"): (x) all of the beneficial owners of outstanding securities (other than short-term paper) of such entity (such beneficial owners determined in accordance with Section 3(c)(1)(A) of the Investment Company Act) that acquired such securities on or before April 30, 1996 ("pre-amendment beneficial owners"); and (y) all pre-amendment beneficial owners of the outstanding securities (other than short-term paper) of any excepted investment company that, directly or indirectly, owns any outstanding securities of such entity, have consented to such entity's treatment as a Qualified Purchaser in accordance with the Investment Company Act.

(10) *Certifications Related to Tax Withholding.* The purchaser understands that the Issuer may require certification acceptable to it (a) to permit the Issuer to make payments to it

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without, or at a reduced rate of, withholding or (b) 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. The purchaser agrees to provide any such certification that is requested by the Issuer.

(11) *Tax Treatment.* The purchaser agrees by acquisition of Preference Shares that it acknowledges that the Issuer will be treated as a corporation and that the Preference Shares will be treated as equity in the Issuer, and agrees to take no action inconsistent with such treatment, unless required by law.

(12) *ERISA.* No Preference Share may be purchased or transferred to, on behalf of or using the assets of (i) an employee benefit plan subject to Title I of ERISA or a plan subject to Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the **"Code"**) (each such plan, an **"ERISA Plan"**); (ii) a collective investment fund, separate account or other entity whose underlying assets are treated as **"Plan Assets"** of an ERISA Plan under U.S. Department of Labor Regulation Section 2510.3-101 (a **"Benefit Plan Investor"**); (iii) a person acting on behalf of an ERISA Plan or; or (iv) unless none of its assets could be deemed to include "Plan Assets" subject to Title I of ERISA or Section 4975 of the Code, any other Benefit Plan Investor.

(13) *Limitations on Flow-Through Status.* The purchaser represents that, unless the purchaser is a Qualifying Investment Vehicle, (a) if the purchaser 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 Preference Shares does not exceed 40% of the total assets (determined on a consolidated basis with its subsidiaries) of the purchaser; (b) no person owning any equity or similar interest in the purchaser has the ability to control any investment decision of the purchaser or to determine, on an investment-by-investment basis, the amount of such person's contribution to any investment made by the purchaser; (c) the purchaser was not organized or reorganized for the specific purpose of acquiring Preference Shares; and (d) no 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 Preference Shares (any such entity in (a), (b), (c) or (d) above being herein referred to as a **"Flow-Through Investment Vehicle"**). For this purpose, a "Qualifying Investment Vehicle" is an entity as to which all of the beneficial owners of any securities issued by such entity have made, and as to which (in accordance with the document pursuant to which such entity was organized or the agreement or other document governing such securities) each such beneficial owner must require any transferee of any such security to make, to the Issuer and the Preference Share Registrar each of the representations set forth herein and in the Preference Share Paying Agency Agreement required to be made upon transfer of any Preference Shares. If the purchaser is a Flow-Through Investment Vehicle, the purchaser represents and warrants that either (a) none of the beneficial owners of its securities are U.S. residents (within the meaning of the Investment Company Act) or (b) some or all of the beneficial owners of its securities are U.S. residents (within the meaning of the Investment Company Act) and each such beneficial owner has certified to the purchaser that it is a Qualified Purchaser. If the purchaser is a Flow-Through Investment Vehicle, the purchaser also represents and warrants 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 Preference Shares).

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

(15) *Certain Transfers Void.* In the case of a purchaser who takes delivery of Preference Shares in the form of a Rule 144A Preference Share, the purchaser agrees that (a) any sale, pledge or other transfer of a Preference Share (or any interest therein) made in violation of the transfer restrictions contained in Preference Share Agency Agreement and described herein, or made based upon any false or inaccurate representation made by the purchaser or a transferee to the Issuer, the Co-Issuer, the Trustee or the Note Registrar will be void and of no force or effect and (b) none of the Issuer, the Co-Issuer, the Trustee and the Note Registrar has any obligation to recognize any sale, pledge or other transfer of a Preference Share (or any interest therein) made in violation of any such transfer restriction or made based upon any such false or inaccurate representation.

The Preference Share Agency Agreement provides that if, notwithstanding the restrictions on transfer contained therein, either of the Issuers determines that any beneficial owner of a Rule 144A Preference Share (or any interest therein) (a) is a U.S. Person and (b) is not both a Qualified Institutional Buyer (or, in respect of certain Original Purchasers, an Institutional Accredited Investor) and a Qualified Purchaser, then either of the Issuers may require, by notice to such beneficial owner, that such beneficial owner sell all of its right, title and interest to such Rule 144A Preference Share (or interest therein) to a person that is (i) a non-U.S. Person in a transfer for an interest in a Regulation S Global Preference Share, or (ii) 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, (y) upon direction from the Collateral Manager or the Issuer, the Trustee, on behalf of and at the expense of the Issuer, shall cause such beneficial owner's interest in such Preference Share to be transferred in a commercially reasonable sale (conducted by an investment bank selected by the Trustee with the consent of the Collateral Manager in accordance with Section 9-610(b) of the Uniform Commercial Code as in effect in the State of New York as applied to securities that are sold on a recognized market or that may decline speedily in value) to a person to whom such Preference Share (or interest therein) may be transferred in accordance with the transfer restrictions set forth in the Preference Share Agency Agreement and (z) pending such transfer, no further payments will be made in respect of such Preference Share held by such beneficial owner.

(16) *Reliance on Representations, etc.* The purchaser acknowledges that the Issuer and the Trustee 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 made or deemed to have been made by it in connection

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with its purchase of Preference Shares are no longer accurate, the purchaser will promptly notify the Issuer and the Trustee.

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

(18) *USA PATRIOT Act.* To the extent applicable to the Issuer, the Issuer may impose additional transfer restrictions to comply with the USA PATRIOT Act and other similar laws or regulations, and each beneficial owner of a Preference Share is deemed to have agreed to comply with such transfer restrictions. The Issuer shall notify the Trustee, the Note Registrar and the Share Registrar of any such restrictions.

(19) *Legend for Preference Shares.* The purchaser understands and agrees that a legend in substantially the following form will be placed on each certificate representing any Preference Shares:

THE PREFERENCE SHARES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE **"SECURITIES ACT"**), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION, AND MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (A)(1) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT (**"RULE 144A"**), PURCHASING FOR ITS OWN ACCOUNT, TO WHOM NOTICE IS GIVEN THAT THE RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON THE EXEMPTION FROM SECURITIES ACT REGISTRATION PROVIDED BY RULE 144A OR (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE SECURITIES ACT (**"REGULATION S"**), (B) IN COMPLIANCE WITH THE CERTIFICATION AND OTHER REQUIREMENTS SPECIFIED IN THE ISSUER CHARTER REFERRED TO HEREIN AND (C) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND ANY OTHER APPLICABLE JURISDICTION. THE ISSUER HAS NOT BEEN REGISTERED UNDER THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE **"INVESTMENT COMPANY ACT"**). NO TRANSFER OF THE PREFERENCE SHARES REPRESENTED HEREBY (OR ANY INTEREST HEREIN) 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. RESIDENT (WITHIN THE MEANING OF THE INVESTMENT COMPANY ACT) THAT IS NOT (I) A "QUALIFIED PURCHASER" AS DEFINED IN THE INVESTMENT COMPANY ACT, (II) A "KNOWLEDGEABLE EMPLOYEE" WITH RESPECT TO THE ISSUER WITHIN THE MEANING OF RULE 3c-5 UNDER THE INVESTMENT COMPANY ACT OR (III) A COMPANY BENEFICIALLY OWNED EXCLUSIVELY BY ONE OR MORE "QUALIFIED PURCHASERS" AND/OR "KNOWLEDGEABLE EMPLOYEES" WITH RESPECT TO THE ISSUER, (B) SUCH TRANSFER WOULD HAVE THE EFFECT OF REQUIRING THE ISSUER OR THE COLLATERAL TO REGISTER AS AN INVESTMENT COMPANY UNDER THE INVESTMENT COMPANY ACT, (C) SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE THAT IS A U.S. RESIDENT WHICH IS A FLOW-THROUGH INVESTMENT VEHICLE OTHER THAN A QUALIFYING INVESTMENT VEHICLE (EACH AS DEFINED IN THE ISSUER CHARTER) 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 ATTACHED AS AN EXHIBIT TO THE PREFERENCE SHARE PAYING AGENCY AGREEMENT REFERRED TO HEREIN. ACCORDINGLY, AN INVESTOR IN THIS PREFERENCE SHARES

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MUST BE PREPARED TO BEAR THE ECONOMIC RISK OF THE INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.

NO PREFERENCE SHARE MAY BE PURCHASED OR TRANSFERRED TO, ON BEHALF OF OR USING THE ASSETS OF (I) AN EMPLOYEE BENEFIT PLAN SUBJECT TO TITLE I OF ERISA OR A PLAN SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE **"CODE"**) (EACH SUCH PLAN, AN **"ERISA PLAN"**); (II) A COLLECTIVE INVESTMENT FUND, SEPARATE ACCOUNT OR OTHER ENTITY WHOSE UNDERLYING ASSETS ARE TREATED AS **"PLAN ASSETS"** OF AN ERISA PLAN UNDER U.S. DEPARTMENT OF LABOR REGULATION SECTION 2510.3-101 (A **"BENEFIT PLAN INVESTOR"**); (III) A PERSON ACTING ON BEHALF OF AN ERISA PLAN OR; OR (IV) UNLESS NONE OF ITS ASSETS COULD BE DEEMED TO INCLUDE "PLAN ASSETS" SUBJECT TO TITLE I OF ERISA OR SECTION 4975 OF THE CODE, ANY OTHER BENEFIT PLAN INVESTOR.

Investor Representations on Original Purchase. Except as provided in the next succeeding sentence, each transferee of Preference Shares will be required to deliver to the Issuer and the Preference Share Registrar a duly executed transferee certificate in the form of the relevant exhibit attached to the Preference Share Paying Agency Agreement and such other certificates and other information as the Issuer may reasonably require to confirm that the proposed transfer complies with the transfer restrictions contained in this Offering Circular. An owner of a beneficial interest in Regulation S Global Preference Shares may transfer such interest in the form of a beneficial interest in such Regulation S Global Preference Shares without the provision of written certification, provided that (1) such transfer is not made to a U.S. Person or for the account or benefit of a U.S. Person and is effected through Euroclear or Clearstream in an offshore transaction as required by Regulation S and only in accordance with the Applicable Procedures and (2) any transfer not effected in an offshore transaction in accordance with Rule 904 of Regulation S may be made only upon provision to the Preference Share Registrar of written certification from the transferee and transferor in the form provided for in the Preference Share Paying Agency Agreement.

Pursuant to such transferee certificate, (a) the transferee will acknowledge, represent to and agree with the Issuer as to the matters set forth in each of paragraphs (1) through (19) above (other than paragraphs (5), (6) and (8) above) as if each reference therein to "the purchaser" were instead a reference to the transferee and (b) further represents to and agrees with the Issuer as follows:

(1) In the case of a transferee who takes delivery of Rule 144A Preference Share, it (i) is both (x) a Qualified Institutional Buyer and (y) a Qualified Purchaser; (ii) is not a dealer described in paragraph (a)(1)(ii) of Rule 144A unless such purchaser owns and invests on a discretionary basis at least U.S.$25,000,000 in securities of issuers that are not affiliated persons of the dealer; (iii) is not a plan referred to in paragraph (a)(1)(i)(D) or (a)(1)(i)(E) of Rule 144A, or a trust fund referred to in paragraph (a)(1)(i)(F) of Rule 144A that holds the assets of such a plan, unless investment decisions with respect to the plan are made solely by the fiduciary, trustee or sponsor of such plan; (iv) it will provide written notice of the foregoing, and of any applicable restrictions on transfer, to any transferee, (v) is aware that the sale to it is being made in reliance on Rule 144A or another exemption from the registration requirements of the Securities Act; and (vi) is acquiring such Preference Shares for its own account; provided that a transferee of Preference Shares (or interest therein) acquiring pursuant to a transfer made in accordance with exemption from the registration requirements of the Securities Act other than Rule 144A

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(subject to the delivery of such certifications, legal opinions or other information as the Issuer may reasonably require to confirm that such transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act) need not make any of the foregoing representations relating to Rule 144A. In the case of a transferee who takes delivery of Regulation S Global Preference Shares, it (i) is acquiring such Regulation S Global Preference Shares in an offshore transaction in accordance with Rule 904 of Regulation S, (ii) is acquiring such Regulation S Global Preference Shares for its own account, (iii) is not acquiring, and has not entered into any discussions regarding its acquisition of, such Regulation S Global Preference Shares while it is in the United States or any of its territories or possessions, (iv) understands that such Regulation S Global Preference Shares are being sold without registration under the Securities Act by reason of an exemption that depends, in part, on the accuracy of these representations, (v) understands that such Regulation S Global Preference Shares may not, absent an applicable exemption, be transferred without registration and/or qualification under the Securities Act and applicable state securities laws and the laws of any other applicable jurisdiction and (vi) understands that prior to the end of the Distribution Compliance Period, interests in Regulation S Global Preference Shares may only be held through Euroclear or Clearstream. In addition, each Preference Shareholder must provide the Issuer and the Preference Share Registrar an executed certificate in the appropriate form attached to the Preference Share Paying Agency Agreement, if so required by the Preference Share Paying Agency Agreement.

(2) It acknowledges that the foregoing acknowledgements, representations and agreements will be relied upon by the Issuer and the Preference Share Transfer Agent for the purpose of determining its eligibility to purchase Preference Shares. It agrees to provide, if requested, any additional information that may be required to substantiate its status as a Qualified Institutional Buyer or its eligibility for an exception under the Investment Company Act, to determine compliance with ERISA and/or Section 4975 of the Code or to otherwise determine its eligibility to purchase Preference Shares.

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LISTING AND GENERAL INFORMATION

1. Application will be made to the Irish Financial Services Regulatory Authority, as competent authority under Directive 2003/71/EC, for the prospectus to be approved. Application will be made to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on its regulated market. Such approval relates only to Notes which are to be admitted to trading on the regulated market of the Irish Stock Exchange or other regulated markets for the purposes of Directive 93/22/EEC or which are to be offered to the public in any Member State of the European Economic Area. Copies of this Offering Circular, the Issuer Charter, the Preference Share Paying Agency Agreement, the Management Agreement, the Note Purchase Agreement, the Administration Agreement, any Interest Rate Swap Agreement, each Synthetic Security, the Initial Investment Agreement, the Certificate of Incorporation and By-laws of the Co-Issuer and the Indenture will be available for inspection at the registered office of the Issuer and at the office of the Irish Paying Agent, where electronic copies thereof may be obtained, free of charge, upon request for the life of this document.

2. Copies of the Issuer Charter, the Certificate of Incorporation and By-laws of the Co-Issuer, the resolutions of the Board of Directors of the Issuer authorizing the issuance of the Notes and the resolutions of the Board of Directors of the Co-Issuer authorizing the issuance of the Notes, the Indenture and the Management Agreement may be obtained free of charge upon request within 30 days of the date of this Offering Circular at the office of the Trustee on behalf of the Issuer.

3. Each of the Issuers represents that there has been no material adverse change in its financial position since its date of incorporation. The Issuers are not, and have not since incorporation been, involved in any litigation, governmental or arbitration proceedings relating to claims in amounts which may have or have had a material effect on the Issuers in the context of the issue of the Notes, nor, so far as either of the Issuers is aware, is any such litigation or arbitration involving it pending or threatened.

4. Each of the Issuers represents that there has been no material adverse change in its financial position since its date of incorporation. The Issuers are not, and have not since incorporation been, involved in any litigation, governmental or arbitration proceedings relating to claims in amounts which may have or have had a material effect on the Issuers in the context of the issue of the Notes, nor, so far as either of the Issuers is aware, is any such litigation or arbitration involving it pending or threatened.

5. The issuance of the Notes will be authorized by the Board of Directors of the Issuer by resolutions passed on or before the Closing Date. The issuance of the Notes will be authorized by the Board of Directors of the Co-Issuer by resolutions to be passed on or before the Closing Date. Since incorporation, 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. It is estimated that the fees payable in respect of the listing of the Notes on the Irish Stock Exchange will be approximately $7,500 consisting of Irish Stock Exchange listing fees, listing agent sponsor fees and fees to be annually paid to the Irish Paying Agent.

6. The Notes sold in offshore transactions in reliance on Regulation S under the Securities Act and represented by the Global Notes have been accepted for clearance through Clearstream and Euroclear under the Common Codes indicated below. The CUSIP Numbers and International Securities Identification Numbers (ISIN) for the Notes represented by Regulation S Global Notes and Restricted Global Notes are as indicated on the following page.

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	Regulation S Common Codes	Regulation S CUSIP Numbers	Regulation S ISIN Numbers	Restricted Common Codes	Restricted CUSIP Numbers	Restricted ISIN Numbers
Class A-1a Notes	029237204	G37903AA2	USG37903AA26	029236828	36868VAA4	US36868VAA44
Class A-1b Notes	029237298	G37903AG9	USG37903AG95	029237247	36868VAG1	US36868VAG14
Class A-2 Notes	029237344	G37903AB0	USG37903AB09	029237328	36868VAB2	US36868VAB27
Class B Notes	029237387	G37903AC8	USG37903AC81	029237379	36868VAC0	US36868VAC00
Class C Notes	029237409	G37903AD6	USG37903AD64	029237395	36868VAD8	US36868VAD82
Class D Notes	029237522	G37903AE4	USG37903AE48	029237484	36868VAE6	US36868VAE65
Class E Notes	029237786	G37903AF1	USG37903AF13	029237654	36868VAF3	US36868VAF31

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LEGAL MATTERS

Certain legal matters with respect to the Notes and New York law will be passed upon for the Issuer by Allen & Overy LLP. Allen & Overy LLP will also act as counsel to the Initial Purchaser. Cadwalader, Wickersham & Taft LLP will act as counsel to the Collateral Manager. Certain matters with respect to Cayman Islands corporate law and tax law will be passed upon for the Issuer by Maples and Calder.

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SCHEDULE A

AUCTION CALL REDEMPTION – AUCTION PROCEDURES

The following sets forth the auction procedures (the "**Auction Procedures**") to be followed in connection with a sale effected pursuant to the Indenture.

I. **Pre-Auction Process**

- The Auction Agent will initiate the Auction Procedures at least 24 Business Days prior to each Auction Date by:
  - with the assistance of the Collateral Manager, preparing a list containing the names of the issuer and guarantor (if any), the par amount and the CUSIP number (if any) with respect to each Underlying Asset and such other information as shall be notified to the Auction Agent by the Collateral Manager;
  - with the assistance of the Collateral Manager, preparing a list of the constituents of each subpool which shall be based upon the Collateral Manager's good faith determination of the composition of subpools that will maximize Disposition Proceeds; *provided* that the maximum number of subpools shall be eight; and
  - directing the Trustee to send the lists prepared pursuant to clauses (i) and (ii) above to the Qualified Bidders identified on the then-current Qualified Bidder List (the "**Listed Bidders**") and requesting bids on the Auction Date.
- The general solicitation package which the Auction Agent shall deliver to the Listed Bidders will include: (i) a form of a purchase agreement (which shall, among other things, provide that (A) upon satisfaction of all conditions precedent therein, the purchaser is irrevocably obligated to acquire, and the issuer is irrevocably obligated to Dispose of, the Underlying Assets (or relevant subpool, as the case may be) on the date and on the terms and conditions set forth therein and (B) if the subpools are to be sold to more than one bidder, the consummation of the purchase of each subpool must occur simultaneously and the closing of each purchase is conditional on the closing of each of the other purchases); (ii) the minimum purchase price; (iii) a formal bidsheet (which shall permit the relevant bidder to bid for all of the Underlying Assets, any subpool or separately for each of the subpools) including a representation from the bidder that it is eligible to acquire all of the Underlying Assets; (iv) a detailed timetable; and (v) copies of all transfer documents (including transfer certificates and subscription agreements which a bidder must execute pursuant to the Underlying Instruments and a list of the requirements which the bidder must satisfy under the Underlying Instruments (i.e., Qualified Institutional Buyer, Qualified Purchaser, etc.)).
- The Auction Agent shall send solicitation packages to all Listed Bidders at least 15 Business Days before the Auction Date. No later than 10 Business Days before the Auction Date, Listed Bidders may submit written due diligence questions relating to the legal documentation and other information contained in the general solicitation package (including comments on the draft purchase agreement to be used in connection with the Auction (the "**Auction Purchase Agreement**")) to the Collateral Manager;

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provided that the Collateral Manager shall only be obligated to answer questions relating to the Collateral to the extent that it is able to do so by reference to information which it is required to provide under the Management Agreement. The Collateral Manager shall be solely responsible for (i) responding to all relevant questions and/or comments submitted to it in accordance with the foregoing and (ii) distributing the questions, answers and revised final Auction Purchase Agreement to all Listed Bidders at least five Business Days prior to the Auction Date.

II. **Auction Process**

- If it is not the Auction Agent, the Collateral Manager or its Affiliates will be allowed to bid in the Auction if it deems appropriate, but will not be required to do so.
- On the Auction Date, all bids will be due by facsimile to the offices of the Auction Agent by 11:00 a.m., New York City time, with the winning bidder to be notified by 2:00 p.m., New York City time. All bids from Listed Bidders will be due on the bid sheet contained in the solicitation package. Each bid shall be for the purchase and delivery to one purchaser of (i) all (but not less than all) of the Underlying Assets or (ii) all (but not less than all) of the Underlying Assets that constitute the components of one or more subpools.
- If the Auction Agent receives fewer than two bids from Listed Bidders to purchase all of the Underlying Assets or to purchase each subpool, the Auction Agent shall decline to consummate the sale.
- Subject to clause (c), the Auction Agent shall identify as the winning bidder the bid or bids that result in the Highest Auction Price (in excess of the minimum purchase price) from one or more Listed Bidders.
- Upon notification to the winning bidder(s), the winning bidder (or, if the Highest Auction Price requires the sale of subpools to more than one bidder, each winning bidder) will be required to deliver to the Auction Agent a signed counterpart of the Auction Purchase Agreement no later than 4:00 p.m. New York City time on the Auction Date. The winning bidder (or, if the Highest Auction Price requires the sale of subpools to more than one bidder, each winning bidder) shall be required to pay the full purchase price in cash prior to the sixth Business Day following the relevant Auction Date, at which time all monies will be transferred into the Collection Account. If payment in full of the purchase price is not made when due (or, if the subpools are to be sold to more than one bidder, if any bidder fails to make payment of the purchase price when due), the Trustee on behalf of the Issuer shall decline to consummate the sale of each subpool and shall give notice (in accordance with the Indenture) that the Auction Call Redemption will not occur.
- "**Highest Auction Price**" means, with respect to an Auction Call Redemption, the greater of (a) the highest price bid by any Listed Bidder for all of the Underlying Assets and (b) the sum of the highest prices bid by one or more Listed Bidders for each subpool. In each case, the price bid by a Listed Bidder shall be the Dollar amount which the Auction Agent certifies to the Trustee based on the Auction Agent's review of the bids, which certification shall be binding and conclusive.

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- **"Qualified Bidder"** means (a) a Person whose unsecured debt obligations have been assigned, or whose obligations under the bid letter and resulting purchase agreement will be guaranteed by a Person whose unsecured debt obligations have been assigned, a rating equivalent to the highest rating on the Notes or an unsecured short-term rating of "A-1+" by Standard & Poor's and "F-1" by Fitch, (b) a Person who the Auction Agent believes to be an active purchaser of Asset-Backed Securities with the financial resources available to it to pay the purchase price of the Underlying Assets in a timely fashion, or (c) the Collateral Manager or any of its Affiliates; *provided* that with respect to the Synthetic Securities entered into with the First Synthetic Security Counterparty, the Issuer may, upon reasonable notice to the First Synthetic Security Counterparty, transfer to an Eligible Counterparty, as such term is defined in the schedule to the Master Agreement, or to any other counterparty, in regard to which the First Synthetic Security Counterparty will have the right to approve or disapprove of any novation of such Synthetic Security by the Issuer.

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SCHEDULE B

STANDARD & POOR'S RATING

The Standard & Poor's Rating of any Underlying Asset (which shall mean with respect to a Synthetic Security, the related Reference Obligation) will be determined as follows:

(i) if such Underlying Asset is rated either publicly or privately (with appropriate consents) by Standard & Poor's, the Standard & Poor's Rating shall be such rating, or, if such Underlying Asset 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 perform a credit estimate in respect of such Underlying Asset, 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, such Underlying Asset shall have a Standard & Poor's Rating of "CCC-" if the Collateral Manager believes that such estimate will be at least "CCC-"; and

(ii) with respect to any other Underlying Asset, as set forth below.

Part 1 - Standard & Poor's Ratings

Asset classes are eligible for notching if they are not first loss tranches or combination securities. If the security is publicly rated by two agencies, notch down as shown below based on the lowest rating. If the security is publicly rated only by one agency, then notch down what is shown below *plus* one more notch. The Aggregate Principal/Notional Balance of Underlying Assets the Standard & Poor's Rating of which is based on a Fitch rating or a Moody's rating may not exceed 20% of the Aggregate Principal/Notional Balance of all Underlying Assets, the balance of which must be rated by Standard & Poor's or assigned Standard & Poor's rating estimates.

	Issued prior to 8/1/01 Current rating is:		Issued after 8/1/01 Current rating is:	
	Inv. Grade	Non Inv. Grade	Inv. Grade	Non Inv. Grade
1. CONSUMER ABS	-1	-2	-2	-3
Automobile Loan Receivable Securities				
Automobile Lease Receivable Securities				
Car Rental Receivables Securities				
Credit Card Securities				
Healthcare Securities				
Student Loan Securities				

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	Issued prior to 8/1/01 Current rating is:		Issued after 8/1/01 Current rating is:	
	Inv. Grade	Non Inv. Grade	Inv. Grade	Non Inv. Grade
2. COMMERCIAL ABS Cargo Securities Equipment Lease Securities Aircraft Leasing Securities Small Business Loan Securities Restaurant and Food Services Securities	-1	-2	-2	-3
3. Non-RE-REMIC RMBS Manufactured Housing Loan Securities	-1	-2	-2	-3
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. CBO/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 – Hospitality REIT – Office REIT – Industrial REIT – Healthcare REIT – Warehouse REIT – Self Storage REIT – Mixed Use	-1	-2	-2	-3

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	Issued prior to 8/1/01 Current rating is:		Issued after 8/1/01 Current rating is:	
	Inv. Grade	Non Inv. Grade	Inv. Grade	Non Inv. Grade
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

Part 2 - Standard & Poor's Asset Backed Categories

Each of the following categories of asset backed security shall constitute a separate asset backed class. Securities not included in any of these categories shall be assigned by Standard & Poor's.

Structured Finance Sectors

1. ABS Consumer
2. ABS Commercial
3. CDOs
4. CMBS Diversified – Conduit and CTL
5. CMBS – Large Loan, Single Borrower and Single Property
6. REITs
7. RMBS A
8. RMBS B&C, HELs, HELOCs and Tax Lien
9. Manufactured Housing
10. Project Finance
11. U.S. Agency – Explicitly Guaranteed
12. Monoline/FER Guaranteed
13. Non-FER Company Guaranteed
14. FFELP Student Loan (Over 70% FFELP)

Part 3 - Standard & Poor's Asset Classes Not Eligible to be Notched

The following asset classes are not eligible to be notched. Credit estimates must be performed.

Asset Type

1. Non-U.S. Structured Finance Securities
2. Guaranteed Securities
3. CDOs of Structured Finance and Real Estate Securities

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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
10. Synthetic CBOs
11. Combination Securities
12. Re-REMICs
13. Market value CDOs
14. Net Interest Margin Securities (NIMs)
15. Structured Settlement Obligations
16. Any asset class not listed on Part 1 above

SCHEDULE C

MOODY'S RATING AND MOODY'S WEIGHTED AVERAGE RATING

The **"Weighted Average Rating"** on any Measurement Date is the number determined by dividing (i) the sum of the series of products obtained for Underlying Assets (other than Underlying Asset which the Asset Manager reasonably believes will default with respect to payment when next due and any Defaulted Securities) by multiplying the Principal/Notional Balance on such Measurement Date of each such Underlying Asset by its respective Moody's Rating Factor on such Measurement Date by (ii) the sum of the Aggregate Principal/Notional Balance on such Measurement Date of all Underlying Assets that are not Underlying Assets which the Asset Manager reasonably believes will default with respect to payment when next due and any Defaulted Securities.

The **"Moody's Rating Factor"** relating to any Underlying Asset is the number set forth in the table below opposite the Moody's Rating of such Underlying Asset:

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

The **"Moody's Rating"** of any Underlying Asset (which shall mean with respect to a Synthetic Security, the related Reference Obligation) will be determined as follows:

with respect to any Asset-Backed Security, for determining the Moody's Rating as of any date of determination:

(i) if such Asset-Backed Security is publicly rated by Moody's, the Moody's Rating shall be such rating, or, if such Underlying Asset 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 Underlying Asset, the Moody's Rating shall be the rating so assigned by Moody's;

(ii) if such Asset-Backed Security is not publicly rated by Moody's, then the Moody's Rating of such Asset-Backed Security may be determined using any one of the methods below:

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(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 (1) one subcategory below the Moody's equivalent rating assigned by Standard & Poor's if the rating assigned by Standard & Poor's is "AAA"; (2) two 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 (3) three rating subcategories below the Moody's equivalent rating assigned by Standard & Poor's if the rating assigned by Standard & Poor's is below "BBB-"; and

(B) with respect to any other type of Asset-Backed Securities, pursuant to any method specified by Moody's;

provided that

(V) the rating of either Rating Agency used to determine the Moody's Rating pursuant to any of clauses (i) or (ii) above shall be a public, non-exclusive rating (but not a rating estimate) that addresses the obligation of the obligor to pay principal of and interest on the relevant Underlying Asset in full and is monitored on an ongoing basis by the relevant Rating Agency,

(W) the Aggregate Principal/Notional Balance of Underlying Assets the Moody's Rating of which is based on a Standard & Poor's Rating may not exceed 20% of the Aggregate Principal/Notional Balance of all Underlying Assets, the balance of which must be rated by Moody's or assigned Moody's rating estimates,

(X) the ratings of no more than 10% of the Aggregate Principal/Notional Balance of all Underlying Assets may be assigned rating factors derived via notching from single-rated instruments,

(Y) with respect to any one Rating Agency, the single-rated notched bucket may be no larger than 7.5% of the Aggregate Principal/Notional Balance of all Underlying Assets and

(Z) if an Underlying Asset

(A) is placed on a watch list for possible upgrade by Moody's, the Moody's Rating applicable to such Underlying Asset shall be two rating subcategories above the Moody's Rating applicable to such Underlying Asset immediately prior to such Underlying Asset being placed on such watch list, if such Underlying Asset is rated below "Aaa" by Moody's unless rated "Aa1", in which case only one subcategory above; and

(B) is placed on a watch list for possible downgrade by Moody's, the Moody's Rating applicable to such Underlying Asset shall be (i) one rating subcategory below the Moody's Rating applicable to such Underlying Asset immediately prior to such Underlying Asset being placed on such watch list, if such Underlying Asset is rated "Aaa" by Moody's or (ii) two rating subcategories below the Moody's Rating applicable to such Underlying Asset immediately prior to such Underlying Asset being placed on such watch list, if such Underlying Asset is rated below "Aaa" by Moody's; and

provided further that, with respect to notched ratings on certain asset classes, the Moody's Rating shall be determined in conjunction with the notching conventions set forth below.

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Standard & Poor's

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 an Standard & Poor's rating of BBB implies a Moody's rating of Baa3.)

ASSET CLASS	AAA to AA-	A+ to BBB-	Below BBB-
Auto loan	1	2	3
Car Rental Fleet	1	2	3
CDO Domestic Corporate Debt	No notching permitted	No notching permitted	No notching permitted
CDO Structured Product	No notching permitted	No notching permitted	No notching permitted
Consumer Asset-Backed	1	2	3
Credit Card	1	2	3
Equipment Lease	1	2	3
Manufactured Housing	1	2	3
Small Business Loan	1	2	3
Student Loan	1	2	3

Residential Mortgage Related (note that rating category groups differ here from above)	AAA	AA+ to BBB-	Below BBB-
Jumbo A	1	2	3
Alt-A or mixed pools	1	3	4
HEL (including Residential A and Residential B&C)	1	2	3

Fitch

The following notching conventions are with respect to Fitch:

Residential Mortgage Related	AAA	AA+ to BBB-	Below BBB-
Jumbo A	1	2	4
Alt-A or mixed pools	1	3	5
HEL (including Residential A and Residential B&C)	No notching	No notching	No notching

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 from above, then go up by 1/2 notch. For dual-rated HEL (including Residential A and Residential B&C) transactions, apply the Standard & Poor's-only rated tranche notching guidelines as set forth above.

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CMBS

The following CMBS notching conventions are with respect to S&P and Fitch:

Commercial Mortgage Backed Securities		
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**
Conduit*	2 notches from lower of Fitch/S&P	1.5** notches from lower of Fitch/S&P
Credit Tenant Lease	Follow corporate notching practice	Follow corporate notching practice
Large Loan	No notching permitted	

* 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.

** A 1.5 notch 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 the Ba1 rating factors.

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SCHEDULE D

STANDARD & POOR'S RECOVERY MATRIX

A. If the Underlying Asset (which shall mean with respect to a Synthetic Security, the related Reference Obligation) is an Asset-Backed Security (other than a CMBS Security) and is the senior-most tranche of securities issued by the issuer of such Underlying Asset:

Initial Standard & Poor's Rating of the Underlying Asset at Issuance	Liability Rating assigned by Standard & Poor's						
	AAA	AA+ AA AA-	A+ A A-	BBB+ BBB BBB-	BB+ BB BB-	B+ B B-	CCC+ CCC CCC-
AAA	80.0%	85.0%	90.0%	90.0%	90.0%	90.0%	90.0%
AA+, AA, AA-	70.0%	75.0%	85.0%	90.0%	90.0%	90.0%	90.0%
A+, A, A-	60.0%	65.0%	75.0%	85.0%	90.0%	90.0%	90.0%
BBB+, BBB, BBB-	50.0%	55.0%	65.0%	75.0%	85.0%	85.0%	85.0%

B. If the Underlying Asset (which shall mean with respect to a Synthetic Security, the related Reference Obligation) is an Asset-Backed Security (other than a CMBS Security) and is not the senior-most tranche of securities issued by the issuer of such Underlying Asset:

Initial Standard & Poor's Rating of the Underlying Asset at Issuance	Liability Rating assigned by Standard & Poor's						
	AAA	AA+ AA AA-	A+ A A-	BBB+ BBB BBB-	BB+ BB BB-	B+ B B-	CCC+ CCC CCC-
AAA	65.0%	70.0%	80.0%	85.0%	85.0%	85.0%	85.0%
AA+, AA, AA-	55.0%	65.0%	75.0%	80.0%	80.0%	80.0%	80.0%
A+, A, A-	40.0%	45.0%	55.0%	65.0%	80.0%	80.0%	80.0%
BBB+, BBB, BBB-	30.0%	35.0%	40.0%	45.0%	50.0%	60.0%	70.0%
BB+, BB, BB-	10.0%	10.0%	10.0%	25.0%	35.0%	40.0%	50.0%
B+, B, B-	2.5%	5.0%	5.0%	10.0%	10.0%	20.0%	25.0%
CCC+, CCC, CCC-	0.0%	0.0%	0.0%	0.0%	2.5%	5.0%	5.0%

C. If the Underlying Asset (which shall mean with respect to a Synthetic Security, the related Reference Obligation) is a CMBS Security:

Initial Standard & Poor's Rating of the Underlying Asset at Issuance	Liability Rating assigned by Standard & Poor's						
	AAA	AA+ AA AA-	A+ A A-	BBB+ BBB BBB-	BB+ BB BB-	B+ B B-	CCC+ CCC CCC-
AAA	80.0%	85.0%	90.0%	90.0%	90.0%	90.0%	90.0%
AA+, AA, AA-	70.0%	75.0%	85.0%	90.0%	90.0%	90.0%	90.0%
A+, A, A-	60.0%	65.0%	75.0%	85.0%	90.0%	90.0%	90.0%
BBB+, BBB, BBB-	45.0%	50.0%	55.0%	60.0%	65.0%	70.0%	75.0%
BB+, BB, BB-	35.0%	40.0%	45.0%	45.0%	50.0%	50.0%	50.0%

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Initial Standard & Poor's Rating of the Underlying Asset at Issuance	Liability Rating assigned by Standard & Poor's						
	AAA	AA+ AA AA-	A+ A A-	BBB+ BBB BBB-	BB+ BB BB-	B+ B B-	CCC+ CCC CCC-
B+, B, B-	20.0%	25.0%	30.0%	35.0%	35.0%	40.0%	40.0%
CCC+, CCC, CCC-	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
NR	0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

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SCHEDULE E

MOODY'S RECOVERY RATE MATRIX

The recovery rate with respect to a Synthetic Security will be calculated using the related Reference Obligation.

ABS Type Diversified ABS Securities[1]:

% of Underlying Capital Structure[2]	Initial Rating of Underlying Asset[3]					
	Aaa	Aa	A	Baa	Ba	B
>70%	85%	80%	70%	60%	50%	40%
<=70%, >10%	75%	70%	60%	50%	40%	30%
<=10%	70%	65%	55%	45%	35%	25%

ABS Type Diversified Residential Securities[4]:

% of Underlying Capital Structure[2]	Initial Rating of Underlying Asset[3]					
	Aaa	Aa	A	Baa	Ba	B
>70%	85%	80%	65%	55%	45%	30%
<=70%, >10%	75%	70%	55%	45%	35%	25%
<=10%, >5%	65%	55%	45%	40%	30%	20%
<=5%, >2%	55%	45%	40%	35%	25%	15%
<=2%	45%	35%	30%	25%	15%	10%

ABS Type Undiversified ABS Securities[5]:

% of Underlying Capital Structure[2]	Initial Rating of Underlying Asset[3]					
	Aaa	Aa	A	Baa	Ba	B
>70%	85%	80%	65%	55%	45%	30%
<=70%, >10%	75%	70%	55%	45%	35%	25%
<=10%, >5%	65%	55%	45%	35%	25%	15%
<=5%, >2%	55%	45%	35%	30%	20%	10%
<=2%	45%	35%	25%	20%	10%	5%

ABS Type Low-Diversity CDO Securities[6]:

% of Underlying Capital Structure[2]	Initial Rating of Underlying Asset[3]					
	Aaa	Aa	A	Baa	Ba	B
>70%	80%	75%	60%	50%	45%	30%
<=70%, >10%	70%	60%	55%	45%	35%	25%
<=10%, >5%	60%	50%	45%	35%	25%	15%
<=5%, >2%	50%	40%	35%	30%	20%	10%
<=2%	30%	25%	20%	15%	7%	4%

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ABS Type High-Diversity CDO Securities[7]:

% of Underlying Capital Structure[2]	Initial Rating of Underlying Asset[3]					
	Aaa	Aa	A	Baa	Ba	B
>70%	85%	80%	65%	55%	45%	30%
<=70%, >10%	75%	70%	60%	50%	40%	25%
<=10%, >5%	65%	55%	50%	40%	30%	20%
<=5%, >2%	55%	45%	40%	35%	25%	10%
<=2%	45%	35%	30%	25%	10%	5%

(1) **"ABS Type Diversified ABS Securities"** refer to Automobile Securities, Car Rental Fleet Securities, Credit Card Securities and Student Loan Securities.

(2) Initial par amount of tranche to which such Underlying Asset relates divided by initial par amount of total securities issued by such Underlying Asset issuer.

(3) The recovery rate for Underlying Assets with a Moody's Rating of Caa1, Caa2 or Caa3 is assumed to be 10%.

(4) **"ABS Type Diversified Residential Securities"** refer to Residential A Mortgage-Backed Securities, Residential B/C Mortgage-Backed Securities, Non-Subprime Home Equity Loan Asset-Backed Securities and Manufactured Housing Securities.

(5) **"ABS Type Undiversified ABS Securities"** refer to Equipment Lease Securities, Small Business Loan Securities and CMBS Securities.

(6) **"ABS Type Low-Diversity CDO Securities"** refer to any CDO Securities that are not High-Diversity Securities.

(7) **"ABS Type High-Diversity CDO Securities"** refer to any CDO Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from a portfolio of commercial and industrial bank loans, other asset-backed securities or corporate debt securities (or any combination of the foregoing) that are obligations of obligors or issuers that represent a relatively diversified pool of obligor credit risk having a Moody's Asset Correlation Factor lower than 20% or a Moody's diversity score higher than 15. The **"Moody's Asset Correlation Factor"** is a single number determined in accordance with the asset correlation methodology provided from time to time by Moody's and listed in the latest Monthly Report or indenture of such CDO Security.

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SCHEDULE F

CLASS D PRIORITY REDEMPTION AMOUNT

The Class D Priority Redemption Amount on each Distribution Date during the Priority Distribution Period will be as follows:

Distribution Date	Class D Priority Redemption Amount
June 2007	$459,167
September 2007	$459,167
December 2007	$459,167
March 2008	$459,167
June 2008	$459,167
September 2008	$459,167
December 2008	$459,167
March 2009	$459,167
June 2009	$459,167
September 2009	$459,167
December 2009	$459,167
March 2010	$459,167

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SCHEDULE G

FORM OF CONFIRMATION FOR RMBS SECURITIES

Deutsche Bank AG 

Date: [ ]

To: Gemstone CDO VII Ltd.

Fax No: [ ]

From: Deutsche Bank AG, acting through its London Branch

RE: Credit Derivative Transaction on Mortgage-Backed Security with Pay-As-You-Go or Physical Settlement (Form I) (Dealer Form) (RMBS)

Dear Sir/Madam

The purpose of this communication (the "Confirmation") is to confirm the terms and conditions of the Credit Derivative Transaction relating to a mortgage-backed security reference obligation entered into between you Gemstone CDO VII Ltd. ("Party B") and us Deutsche Bank AG, acting through its London Branch ("Party A") on the Trade Date specified below (the "Transaction"). This Confirmation constitutes a "Confirmation" as referred to in the ISDA Master Agreement specified below.

The definitions and provisions contained in the 2003 ISDA Credit Derivatives Definitions (the "Credit Derivatives Definitions"), as published by the International Swaps and Derivatives Association, Inc. ("ISDA") and the ISDA Standard Terms Supplement for use with Credit Derivatives Transaction on Mortgage-Backed Security with Pay-As-You-Go or Physical Settlement, as published by ISDA on November 10, 2006 (the "CDS on MBS Terms"), and, if (i) the Additional Provisions for Optional Early Termination have been published by ISDA at the Trade Date and (ii) Optional Early Termination is specified as being applicable, the Additional Provisions for Optional Early Termination most recently published by ISDA, are incorporated into this Confirmation. In the event of any inconsistency between the Credit Derivatives Definitions or the CDS on MBS Terms and this Confirmation, this Confirmation will govern. In the event of any inconsistency between the CDS on MBS Terms and the Credit Derivatives Definitions, the CDS on MBS Terms will govern.

This Confirmation supplements, forms a part of, and is subject to, the ISDA Master Agreement, dated as of [-], 2007, as amended and supplemented from time to time (the "Agreement"), between you and us. All provisions contained in the Agreement govern this Confirmation except as expressly modified below.

The terms of the Transaction to which this Confirmation relates are as follows:

Trade Date:	[ ]
Effective Date:	[ ]
Floating Rate Payer:	[ ] (the "Seller").

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Fixed Rate Payer:	[ ] (the "Buyer").
Calculation Agent:	Party A, unless an Event of Default has occurred and is continuing with respect to Party A, in which case the Calculation Agent shall be a leading, independent dealer in derivatives selected by agreement between the parties within one Business Day of such Event of Default (the "Substitute Calculation Agent"), whose fees and expenses shall be met by Party A, whilst such Event of Default is continuing. If the parties are unable to agree on a Substitute Calculation Agent, each of the parties shall elect an independent dealer in derivatives and such two dealers shall agree on a third party, who shall be deemed to be the Substitute Calculation Agent. Party A shall be appointed to replace the Substitute Calculation Agent within one Business Day of the date on which no Event of Default is continuing in respect of Party A. All determinations by the Calculation Agent shall be made in good faith and in a commercially reasonable manner.
Calculation Agent City:	New York
Business Day:	New York and London
Reference Entity:	[ ]
Reference Obligation:	The obligation identified as follows: [Insurer: [ ]] CUSIP/ISIN: [ ] [Bloomberg ID: [ ]] Legal final maturity date: [ ] Original Principal Amount: [ ] Initial Factor: [ ] Issuer: The Reference Entity]
Reference Policy:	Not Applicable
Reference Price:	[●]%
Initial Face Amount:	[ ]
Initial Payment:	[Not Applicable] [On [the Effective Date], [Buyer]/[Seller] will pay [USD][ ] to [Seller]/[Buyer].]
Fixed Rate:	[ ]% per annum
Fixed Rate Payer Payment Dates:	Not CMBS Convention

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Fixed Amount:	Fixed Amount definition for underlying with no payment delay
Additional Credit Event:	Distressed Ratings Downgrade
Interest Shortfall Cap:	Applicable
WAC Cap Interest Provision:	Not Applicable
Step-up provisions:	Applicable
If Interest Shortfall Cap is applicable, then specify:	
Interest Shortfall Cap Basis:	Fixed Cap
Interest Shortfall Compounding:	Applicable
Rate Source:	USD-LIBOR-BBA
Optional Early Termination:	Not Applicable
Additional Terms:	The definition of "Fixed Amount" in the CDS on MBS Terms shall be deleted and replaced in its entirety with the following: "With respect to any Fixed Rate Payer Payment Date, an amount equal to the product of: (a) the Fixed Rate; (b) an amount determined by the Calculation Agent equal to: (i) the sum of the Reference Obligation Notional Amount (as calculated without taking into consideration any adjustment in the Reference Obligation Notional Amount due to an Implied Writedown Amount) as at 5:00 p.m. in the Calculation Agent City on each day in the related Fixed Rate Payer Calculation Period; divided by (ii) the actual number of days in the related Fixed Rate Payer Calculation Period; and (c) the actual number of days in the related Fixed Rate Payer Calculation Period divided by 360."

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Implied Writedown Amounts are not applicable to this Transaction. Without limiting the foregoing, for the purpose of any calculations required under this Confirmation (including the CDS on MBS Terms), the following terms shall all be deemed to be equal to zero: "Aggregate Implied Writedown Amount", "Current Period Implied Writedown Amount", "Implied Writedown Amount", "Implied Writedown Percentage", "Implied Writedown Reimbursement Amount", or "Previous Period Implied Writedown Amount".

The definition of "Writedown" in the CDS on MBS Terms shall be deleted and replaced in its entirety with the following:

"'Writedown' means the occurrence at any time on or after the Effective Date of:

(i) (A) a writedown or applied loss (however described in the Underlying Instruments) resulting in a reduction in the Outstanding Principal Amount (other than as a result of a scheduled or unscheduled payment of principal); or (B) the attribution of a principal deficiency or realized loss (however described in the Underlying Instruments) to the Reference Obligation resulting in a reduction or subordination of the current interest payable on the Reference Obligation; or

(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, provided that (A) Party A shall not give notice of a Floating Amount Event or Credit Event with respect to the portion of a Writedown resulting from forgiveness referred to in this subclause (ii) that was caused by the vote of Party A if Party A was the holder of 100% of such Reference Obligation, and (B) if, notwithstanding the preceding sub-clause (A), Party A gives notice of a Floating Amount Event or Credit Event with respect to the portion of a Writedown resulting from forgiveness referred to in this subclause (ii) that was caused by the vote of Party A if Party A was the holder of 100% of such Reference Obligation, then, as soon as practicable after Party A and Party B become aware of such occurrence, Party A and Party B shall refund to each other all payments, and reverse all other calculations and/or determinations, that occurred in connection with or resulting from Party A giving notice of such

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	Floating Amount Event or Credit Event." For the avoidance of doubt, no payment in connection with clause (iii) of the definition of "Writedown" (as defined in the CDS on MBS Terms and not as amended herein) shall be due or payable hereunder and the CDS on MBS Terms shall be read accordingly.
Office, Notice and Account Details:	
The Office of Party A for this Transaction is:	London
The Office of Party B for this Transaction is:	George Town, Grand Cayman, Cayman Islands
Telephone, Telex and/or Facsimile Numbers and Contact Details for Notices:	
Party A:	Attention: New York Derivatives Documentation
Telephone:	(212) 250-9425
Fax:	(212) 797-0779
Email:	NYderivative.documentation@db.com
Party B:	[ ]
Account Details:	
Account Details of Buyer:	[ ]
Account Details of Seller:	[ ]

Please confirm your agreement to be bound by the terms of the foregoing by executing a copy of this Confirmation and returning it to us by facsimile.

Yours sincerely,

DEUTSCHE BANK AG, ACTING THROUGH ITS LONDON BRANCH

By: _____

Name:
Title:

By: _____

Name:
Title:

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Confirmed as of the date first above written:

GEMSTONE CDO VII LTD.
By HBK Investments, L.P., as its Investment Manager

By: _____

Name:
Title:

By: _____

Name:
Title:

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ISDA STANDARD TERMS SUPPLEMENT FOR USE WITH CREDIT DERIVATIVE TRANSACTIONS ON MORTGAGE-BACKED SECURITY WITH PAY-AS-YOU-GO OR PHYSICAL SETTLEMENT[1]

(published on November 10, 2006)

This ISDA Standard Terms Supplement for use with Credit Derivative Transactions on Mortgage-Backed Security with Pay-As-You-Go or Physical Settlement (the "CDS on MBS Terms") hereby incorporates by reference the definitions and provisions contained in the 2003 ISDA Credit Derivatives Definitions as published by the International Swaps and Derivatives Association, Inc. ("ISDA") (the "Credit Derivatives Definitions"). In the event of any inconsistency between the Credit Derivatives Definitions and these CDS on MBS Terms, these CDS on MBS Terms will govern.[2]

References to the "Reference Obligation" in these CDS on MBS Terms or in the relevant Confirmation shall be to the terms of the Reference Obligation (as defined below) set out in the Underlying Instruments (as defined below) as amended from time to time unless otherwise specified below.

1. General Terms:

Trade Date:	As shown in the relevant Confirmation.
Effective Date:	As shown in the relevant Confirmation.
Scheduled Termination Date:	Subject to paragraph 6, the Legal Final Maturity Date of the Reference Obligation, subject to adjustment in accordance with the Following Business Day Convention.
Termination Date:	The last to occur of: (a) the fifth Business Day following the Effective Maturity Date; (b) the last Floating Rate Payer Payment Date; (c) the last Delivery Date; and (d) the last Additional Fixed Amount Payment Date.

THE FOOTNOTES TO THIS CDS ON MBS STANDARD TERMS SUPPLEMENT ARE PROVIDED FOR CLARIFICATION ONLY AND DO NOT CONSTITUTE ADVICE AS TO THE STRUCTURING OR DOCUMENTATION OF A CREDIT DERIVATIVE TRANSACTION.

ISDA has not undertaken to review all applicable laws and regulations of any jurisdiction in which the Credit Derivatives Definitions or these CDS on MBS Terms may be used. Therefore, parties are advised to consider the application of any relevant jurisdiction's regulatory, tax, accounting, exchange or other requirements that may exist in connection with the entering into and documenting of a privately negotiated credit derivative transaction.

[1] The definitions and provisions in this ISDA Standard Terms Supplement for use with Credit Derivatives Transactions on Mortgage-Backed Security with Pay-As-You-Go or Physical Settlement may be incorporated into a Confirmation or other document (including in electronic form) (a "Confirmation") by wording in the Confirmation indicating that, or the extent to which, the Confirmation is subject to this ISDA Standard Terms Supplement for use with Credit Derivatives Transactions on Mortgage-Backed Security with Pay-As-You-Go or Physical Settlement. All definitions and provisions so incorporated in a Confirmation will be applicable to that Confirmation unless otherwise provided in that Confirmation.

[2] Parties who wish to novate a trade documented by way of a Confirmation incorporating these CDS on MBS Terms should consider using the Form of Novation Confirmation set out in the Schedule to this ISDA Standard Terms Supplement.

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Floating Rate Payer:	As shown in the relevant Confirmation (the "Seller").
Fixed Rate Payer:	As shown in the relevant Confirmation (the "Buyer").
Calculation Agent:	As shown in the relevant Confirmation.
Calculation Agent City:	As shown in the relevant Confirmation.
Business Day:	As shown in the relevant Confirmation.
Business Day Convention:	Following (which, with the exception of the Effective Date, the Final Amortization Date, each Reference Obligation Payment Date and the period end date of each Reference Obligation Calculation Period, shall apply to any date referred to in these CDS on MBS Terms or in the Relevant Confirmation that falls on a day that is not a Business Day).
Reference Entity:	As shown in the relevant Confirmation.
Reference Obligation:	As shown in the relevant Confirmation. Section 2.30 of the Credit Derivatives Definitions shall not apply.
Reference Policy:	As shown in the relevant Confirmation.
Reference Price:	As shown in the relevant Confirmation.
Applicable Percentage:	On any day, a percentage equal to A divided by B. "A" means the product of the Initial Face Amount and the Initial Factor as decreased on each Delivery Date by an amount equal to (a) the outstanding principal balance of Deliverable Obligations Delivered to Seller (as adjusted by the Relevant Amount, if any) divided by the Current Factor on such day multiplied by (b) the Initial Factor. "B" means the product of the Original Principal Amount and the Initial Factor; (a) as increased by the outstanding principal balance of any further issues by the Reference Entity that are fungible with and form part of the same legal series as the Reference Obligation; and (b) as decreased by any cancellations of some or all of the Outstanding Principal Amount resulting from purchases of the Reference Obligation by or on behalf of the Reference

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Entity.[3]

Initial Face Amount:	As shown in the relevant Confirmation.
Reference Obligation Notional Amount:	On the Effective Date, the product of: (a) the Original Principal Amount; (b) the Initial Factor; and (c) the Applicable Percentage. Following the Effective Date, the Reference Obligation Notional Amount will be: (i) decreased on each day on which a Principal Payment is made by the relevant Principal Payment Amount; (ii) decreased on the day, if any, on which a Failure to Pay Principal occurs by the relevant Principal Shortfall Amount; (iii) decreased on each day on which a Writedown occurs by the relevant Writedown Amount; (iv) increased on each day on which a Writedown Reimbursement occurs by any Writedown Reimbursement Amount in respect of a Writedown Reimbursement within paragraphs (ii) or (iii) of the definition of "Writedown Reimbursement"; and (v) decreased on each Delivery Date by an amount equal to the relevant Exercise Amount minus the amount determined pursuant to paragraph (b) of "Physical Settlement Amount" below, provided that if any Relevant Amount is applicable, the Exercise Amount will also be deemed to be decreased by such Relevant Amount (or increased by the absolute value of such Relevant Amount if such Relevant Amount is negative) with effect from such Delivery Date; provided that if the Reference Obligation Notional Amount would be less than zero, it shall be deemed to be zero. For the avoidance of doubt, the Reference Obligation Notional Amount shall not be increased by any deferral or capitalization of interest that relates to the Term of this Transaction or decreased by payment of any

[3] This represents the percentage covered by the relevant Transaction of the Outstanding Principal Amount. It may be more than 100%.

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		portion of the principal balance of the Reference Obligation that is attributable to the deferral or capitalization of interest during the Term of this Transaction.
	Initial Payment:	As shown in the relevant Confirmation.
2.	**Fixed Payments:**	
	Fixed Rate Payer:	Buyer
	Fixed Rate:	As shown in the relevant Confirmation, subject to adjustment in accordance with paragraph 6 below.
	Fixed Rate Payer Period End Date:	The first day of each Reference Obligation Calculation Period.
	Fixed Rate Payer Payment Dates:	In the relevant Confirmation, the parties shall specify either "Not CMBS Convention" or "CMBS Convention" as applicable. If "Not CMBS Convention" is specified in the relevant Confirmation, the Fixed Rate Payer Payment Dates shall be each day falling five Business Days after a Reference Obligation Payment Date; provided that the final Fixed Rate Payer Payment Date shall fall on the fifth Business Day following the Effective Maturity Date. If "CMBS Convention" is specified in the relevant Confirmation, the Fixed Rate Payer Payment Dates shall be, after each Reference Obligation Payment Date, the next following 25th calendar day of the month, except that when a Reference Obligation Payment Date falls on or after 25th calendar day of a month, the Fixed Rate Payer Payment Date in respect of such Reference Obligation Payment Date shall be 25th calendar day of the next following month; provided that the final Fixed Rate Payer Payment Date shall fall on the fifth Business Day following the Effective Maturity Date.
	Fixed Amount:	In the relevant Confirmation, the parties shall specify "Fixed Amount definition for underlying with no payment delay" or "Fixed Amount definition for underlying with payment delay". If "Fixed Amount definition for underlying with no payment delay" is specified in the relevant Confirmation, the Fixed Amount shall be, with respect to any Fixed Rate Payer Payment Date, an amount equal to the product of: (a) the Fixed Rate;

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(b) an amount determined by the Calculation Agent equal to:

(i) the sum of the Reference Obligation Notional Amount as at 5:00 p.m. in the Calculation Agent City on each day in the related Fixed Rate Payer Calculation Period; divided by

(ii) the actual number of days in the related Fixed Rate Payer Calculation Period; and

(c) the actual number of days in the related Fixed Rate Payer Calculation Period divided by 360.

If "Fixed Amount definition for underlying with payment delay" is specified in the relevant Confirmation, then the Fixed Amount shall be with respect to any Fixed Rate Payer Payment Date, an amount equal to the product of:

(a) the Fixed Rate;

(b) the Reference Obligation Notional Amount outstanding on the last day of the Reference Obligation Calculation Period related to such Fixed Rate Payer Payment Date, as adjusted for any increases or decreases of the Reference Obligation Notional Amount on the Reference Obligation Payment Date immediately preceding the related Reference Obligation Payment Date; and

(c) the actual number of days in the related Fixed Rate Payer Calculation Period divided by 360.

Additional Fixed Amount Payment Dates:

(a) Each Fixed Rate Payer Payment Date; and

(b) in relation to each Additional Fixed Payment Event occurring after the second Business Day prior to the last Fixed Rate Payer Payment Date, the fifth Business Day after Buyer has received notification from Seller or the Calculation Agent of the occurrence of such Additional Fixed Payment Event.

Additional Fixed Payments: Following the occurrence of an Additional Fixed Payment Event in respect of the Reference Obligation, Buyer shall pay the relevant Additional Fixed Amount to Seller on the first Additional Fixed Amount Payment Date falling at least two Business Days (or in the case of an Additional Fixed Payment Event that occurs after the second Business Day prior to the last Fixed Rate

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	Payer Payment Date, five Business Days) after the delivery of a notice by the Calculation Agent to the parties or by Seller to Buyer stating that the related Additional Fixed Amount is due and showing in reasonable detail how such Additional Fixed Amount was determined; provided that any such notice must be given on or prior to the fifth Business Day following the day that is one calendar year after the Effective Maturity Date.
Additional Fixed Payment Event:	The occurrence on or after the Effective Date and on or before the day that is one calendar year after the Effective Maturity Date of a Writedown Reimbursement, a Principal Shortfall Reimbursement or an Interest Shortfall Reimbursement.
Additional Fixed Amount:	With respect to each Additional Fixed Amount Payment Date, an amount equal to the sum of: (a) the Writedown Reimbursement Payment Amount (if any); (b) the Principal Shortfall Reimbursement Payment Amount (if any); and (c) the Interest Shortfall Reimbursement Payment Amount (if any). For the avoidance of doubt, each Writedown Reimbursement Payment Amount, Principal Shortfall Reimbursement Payment Amount or Interest Shortfall Reimbursement Payment Amount (as applicable) shall be calculated using the Applicable Percentage which takes into account the aggregate adjustment made to the Applicable Percentage in respect of all Delivery Dates that have occurred prior to the date of such calculation.

3. Floating Payments:

Floating Rate Payer:	Seller
Floating Rate Payer Payment Dates:	In relation to a Floating Amount Event, the first Fixed Rate Payer Payment Date falling at least two Business Days (or in the case of a Floating Amount Event that occurs on the Legal Final Maturity Date or the Final Amortization Date, the fifth Business Day) after delivery of a notice by the Calculation Agent to the parties or a notice by Buyer to Seller that the related Floating Amount is due and showing in reasonable detail how such Floating Amount was determined; provided that any such notice must be given on or prior to the fifth Business Day following the Effective Maturity Date.

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Floating Payments:	If a Floating Amount Event occurs, then on the relevant Floating Rate Payer Payment Date, Seller will pay the relevant Floating Amount to Buyer. For the avoidance of doubt, the Conditions to Settlement are not required to be satisfied in respect of a Floating Payment.
Floating Amount Event:	A Writedown, a Failure to Pay Principal or an Interest Shortfall.
Floating Amount:	With respect to each Floating Rate Payer Payment Date, an amount equal to the sum of: (a) the relevant Writedown Amount (if any); (b) the relevant Principal Shortfall Amount (if any); and (c) the relevant Interest Shortfall Payment Amount (if any). For the avoidance of doubt, each Writedown Amount, Principal Shortfall Amount or Interest Shortfall Payment Amount (as applicable) shall be calculated using the Applicable Percentage which takes into account the aggregate adjustment made to the Applicable Percentage in respect of all Delivery Dates that have occurred prior to the date of such calculation.

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4. Credit Events and Physical Settlement

Conditions to Settlement: Credit Event Notice

Notifying Party: Buyer

Notice of Physical Settlement

Notice of Publicly Available Information: Applicable

Public Sources: The public sources listed in Section 3.7 of the Credit Derivatives Definitions; provided that Servicer Reports in respect of the Reference Obligation and, in respect of a Distressed Ratings Downgrade Credit Event only, any public communications by any of the Rating Agencies in respect of the Reference Obligation shall also be deemed Public Sources.

Specified Number: 1

provided that if the Calculation Agent has previously delivered a notice to the parties or Buyer has previously delivered a notice to Seller pursuant to the definition of "Floating Rate Payer Payment Dates" above in respect of a Writedown or a Failure to Pay Principal, the only Condition to Settlement with respect to any Credit Event shall be a Notice of Physical Settlement.

The parties agree that with respect to the Transaction and notwithstanding anything to the contrary in the Credit Derivatives Definitions:

(a) the Conditions to Settlement may be satisfied on more than one occasion;

(b) multiple Physical Settlement Amounts may be payable by Seller;

(c) Buyer, when providing a Notice of Physical Settlement, must specify an Exercise Amount and an Exercise Percentage;

(d) if Buyer has delivered a Notice of Physical Settlement that specifies an Exercise Amount that is less than the Reference Obligation Notional Amount as of the date on which such Notice of Physical Settlement is delivered (calculated as though Physical Settlement in respect of all previously delivered Notices of

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Physical Settlement has occurred in full), the rights and obligations of the parties under the Transaction shall continue and Buyer may deliver additional Notices of Physical Settlement with respect to the initial Credit Event or with respect to any additional Credit Event at any time thereafter; and

(e) any Notice of Physical Settlement shall be delivered no later than 30 calendar days after the fifth Business Day following the earlier of the Effective Maturity Date and the Optional Step-up Early Termination Date.

Section 3.2(d) of the Credit Derivatives Definitions is amended to delete the words "that is effective no later than thirty calendar days after the Event Determination Date".

Section 3.3 of the Credit Derivatives Definitions is amended so that the following is added as sub-clause (d):

"(d) the expiration of any applicable grace period for a Failure to Pay Principal Credit Event".

Credit Events:	The following Credit Events shall apply to the Transaction (and the first sentence of Section 4.1 of the Credit Derivatives Definitions shall be amended accordingly): Failure to Pay Principal Writedown Additional Credit Event (as shown in the relevant Confirmation).
Obligation:	Reference Obligation Only

5. Interest Shortfall

Interest Shortfall Payment Amount:	In respect of an Interest Shortfall, the relevant Interest Shortfall Amount; provided that, if Interest Shortfall Cap is specified as applicable in the relevant Confirmation and the Interest Shortfall Amount exceeds the Interest Shortfall Cap Amount, the Interest Shortfall Payment Amount in respect of such Interest Shortfall shall be the Interest Shortfall Cap Amount.
Interest Shortfall Cap:	As shown in the relevant Confirmation.
Interest Shortfall Cap Amount:	As set out in the Interest Shortfall Cap Annex.

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Actual Interest Amount:	With respect to any Reference Obligation Payment Date, payment by or on behalf of the Issuer of an amount in respect of interest due under the Reference Obligation (including, without limitation, any deferred interest or default 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 that relates to the Term of the Transaction) to the holder(s) of the Reference Obligation in respect of the Reference Obligation.
WAC Cap Interest Provision:	As shown in the relevant Confirmation. For this purpose, "WAC Cap" means a weighted average coupon or weighted average rate cap provision (however defined in the Underlying Instruments) of the Underlying Instruments that limits, increases or decreases the interest rate or interest entitlement in circumstances where the Underlying Instruments as at the Trade Date and without regard to any subsequent amendments, do not provide for any interest shortfall arising as a result of such provision to be deferred, capitalized or otherwise compensated for at any future time.
Expected Interest Amount:	With respect to any Reference Obligation Payment Date, the amount of current interest that would accrue during the related Reference Obligation Calculation Period calculated using the Reference Obligation Coupon on a principal balance of the Reference Obligation equal to: (a) the Outstanding Principal Amount taking into account any reductions due to a principal deficiency balance or realized loss amount (however described in the Underlying Instruments) that are attributable to the Reference Obligation minus (b) the Aggregate Implied Writedown Amount (if any) and that will be payable on the related Reference Obligation Payment Date assuming for this purpose that sufficient funds are available therefor in accordance with the Underlying Instruments. Except as provided in (a) in the previous sentence, the Expected Interest Amount shall be determined without regard to (i) unpaid amounts in respect of accrued interest on prior Reference Obligation Payment Dates, or (ii) any prepayment penalties or yield maintenance provisions. The Expected Interest Amount shall be determined: (x) if WAC Cap Interest Provision is specified as applicable in the relevant Confirmation, after giving effect to any WAC Cap; and

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(y) if WAC Cap Interest Provision is specified as not applicable in the relevant Confirmation, without giving effect to any WAC Cap; and

in either case without regard to the effect of any provisions (however described) of such Underlying Instruments that otherwise permit the limitation of due payments to distributions of funds available from proceeds of the Underlying Assets, or that provide for the capitalization or deferral of interest on the Reference Obligation during the Term of the Transaction, or that provide for the extinguishing or reduction of such payments or distributions (each a "Limitation Provision") (but, for the avoidance of doubt, taking account of any Writedown within paragraph (i) of the definition of "Writedown" occurring in accordance with the Underlying Instruments)[4].

For the purposes of calculating the Expected Interest Amount, and notwithstanding any other provision herein, the Reference Obligation Coupon shall be deemed to include any cap stated in the Underlying Instrument that is not a Limitation Provision and, where WAC Cap Interest Provision is specified as not applicable in the relevant Confirmation, is not a WAC Cap.

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

For the avoidance of doubt, the occurrence of an event within (a) or (b) shall be determined taking into account any payment made under the Reference Policy, if applicable.

Interest Shortfall Amount: With respect to any Reference Obligation Payment Date, an amount equal to the greater of:

(a) zero; and

(b) the amount equal to the product of:

(i) (A) the Expected Interest Amount; minus

(B) the Actual Interest Amount; and

(ii) the Applicable Percentage;

provided that, with respect to the first Reference Obligation Payment Date only, the Interest Shortfall Amount shall be the amount determined in accordance with (a) and (b) above multiplied by a fraction equal to:

[4] Note that this will not impact the determination of "Expected Interest Amount" in respect of a Reference Obligation that does not have a Limitation Provision.

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(x) the number of days in the first Fixed Rate Payer Calculation Period; over

(y) the number of days in the first Reference Obligation Calculation Period.

Interest Shortfall Reimbursement:	With respect to any Reference Obligation Payment Date, the payment by or on behalf of the Issuer of an Actual Interest Amount in respect of the Reference Obligation that is greater than the Expected Interest Amount.
Interest Shortfall Reimbursement Amount:	With respect to any Reference Obligation Payment Date, the product of (a) the amount of any Interest Shortfall Reimbursement on such day and (b) the Applicable Percentage.
Interest Shortfall Reimbursement Payment Amount:	If Interest Shortfall Cap is specified as not applicable in the relevant Confirmation, the relevant Interest Shortfall Reimbursement Amount. If Interest Shortfall Cap is specified as applicable in the relevant Confirmation, the amount determined pursuant to the Interest Shortfall Cap Annex.

6. Consequences of Step-up of the Reference Obligation Coupon

Step-up provisions:	As shown in the relevant Confirmation. If the Step-up provisions are applicable, then the following provisions of this paragraph 6 shall apply.
Step-up:	On any day, an increase in the Reference Obligation Coupon due to the failure of the Issuer or a third party to exercise, in accordance with the Underlying Instruments, a "clean-up call" or other right to purchase, redeem, cancel or terminate (however described in the Underlying Instruments) the Reference Obligation.
Non-Call Notification Date:	The date of delivery by the Calculation Agent to the parties or by Buyer to Seller of a Non-Call Notice.
Non-Call Notice:	A notice given by the Calculation Agent to the parties or by Buyer to Seller that the Reference Obligation has not been purchased, redeemed, cancelled or terminated by the Issuer or a third party, in accordance with the Underlying Instruments, pursuant to a "clean-up call" or other right to purchase, redeem, cancel or terminate (however described in the Underlying Instruments) the Reference Obligation, which failure will result in the occurrence of a Step-up.
Increase of the Fixed Rate:	Subject to "Optional Step-up Early Termination" below, upon the occurrence of a Step-up, the Fixed Rate will be increased by the number of basis points by which the Reference Obligation Coupon is increased due to the Step-up, such increase to take effect as of the Fixed Rate

	Payer Payment Date immediately following the fifth Business Day after the Non-Call Notification Date.
Optional Step-up Early Termination:	No later than five Business Days after the Non-Call Notification Date, Buyer shall notify Seller (such notification, a "Buyer Step-up Notice") whether Buyer wishes to continue the Transaction at the increased Fixed Rate or to terminate the Transaction. If Buyer elects to terminate the Transaction, the date of delivery of the Buyer Step-up Notice shall be the Scheduled Termination Date (such date, the "Optional Step-up Early Termination Date") and in such case "Increase of the Fixed Rate" in this paragraph 6 shall not apply. No amount shall be payable by either party in respect of the Optional Step-up Early Termination Date other than any Fixed Amount, Additional Fixed Amount, Floating Amount or Physical Settlement Amount calculated in accordance with the terms hereof. For the avoidance of doubt, the obligation of a party to pay any amount that has become due and payable under the Transaction and remains unpaid as at the Optional Step-up Early Termination Date shall not be affected by the occurrence of the Optional Step-up Early Termination Date. If Buyer fails to deliver the Buyer Step-up Notice by the fifth Business Day after the Non-Call Notification Date, Buyer shall be deemed to have elected to continue the Transaction at the increased Fixed Rate as described under "Increase of the Fixed Rate". If Buyer elects, or is deemed to have elected, to continue the Transaction at the increased Fixed Rate, the Transaction shall continue.

7. Settlement Terms

Settlement Method:	Physical Settlement
Terms Relating to Physical Settlement:	
Physical Settlement Period:	Five Business Days
Deliverable Obligations:	Exclude Accrued Interest
Deliverable Obligations:	Deliverable Obligation Category: Reference Obligation Only
Physical Settlement Amount:	An amount equal to: (a) the product of the Exercise Amount and the Reference Price; minus

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(b) the sum of:

(i) if the Aggregate Implied Writedown Amount is greater than zero, the product of (A) the Aggregate Implied Writedown Amount, (B) the Applicable Percentage, each as determined immediately prior to the relevant Delivery and (C) the relevant Exercise Percentage; and

(ii) the product of (A) the aggregate of all Writedown Amounts in respect of Writedowns within paragraph (i)(B) of the definition of "Writedown" minus the aggregate of all Writedown Reimbursement Amounts in respect of Writedown Reimbursements within paragraph (ii)(B) of the definition of "Writedown Reimbursement" and (B) the relevant Exercise Percentage;

provided that if the Physical Settlement Amount would exceed the product of:

(1) the Reference Obligation Notional Amount as of the date on which the relevant Notice of Physical Settlement is delivered calculated as though Physical Settlement in respect of all previously delivered Notices of Physical Settlement has occurred in full; and

(2) the Exercise Percentage;

then the Physical Settlement Amount shall be deemed to be equal to such product.

Delayed Payment: With respect to a Delivery Date, if a Servicer Report that describes a Delayed Payment is delivered to holders of the Reference Obligation or to the Calculation Agent on or after such Delivery Date, Buyer will pay the applicable Delayed Payment Amount to Seller no later than five Business Days following the later of (a) the day on which such Servicer Report is delivered and (b) the day on which such Delayed Payment is due and payable.

Escrow: Applicable

Non-delivery by Buyer or occurrence of the Effective Maturity Date: If Buyer has delivered a Notice of Physical Settlement and:

(a) Buyer does not Deliver in full the Deliverable Obligations specified in that Notice of Physical Settlement on or prior to the Physical Settlement Date; or

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(b) the Effective Maturity Date occurs after delivery of the Notice of Physical Settlement but before Buyer Delivers the Deliverable Obligations specified in that Notice of Physical Settlement;

then such Notice of Physical Settlement shall be deemed not to have been delivered and any reference in these CDS on MBS Terms to a previously delivered Notice of Physical Settlement shall exclude any Notice of Physical Settlement that is deemed not to have been delivered. Sections 9.2(c)(ii) (except for the first sentence thereof), 9.3, 9.4, 9.5, 9.6, 9.9 and 9.10 of the Credit Derivatives Definitions shall not apply.

8. Additional Provisions:

(a) *Delivery of Servicer Report*

If either party makes a request in writing, the Calculation Agent agrees to provide such party with a copy of the most recent Servicer Report promptly following receipt of such request, if and to the extent such Servicer Report is reasonably available to the Calculation Agent (whether or not the Calculation Agent is a holder of the Reference Obligation). In addition, if a Floating Payment or an Additional Fixed Payment is due hereunder, then the Calculation Agent or the party that notifies the other party that the relevant Floating Payment or Additional Fixed Payment is due, as applicable, (the "Notifying Party") shall deliver a copy of any Servicer Report relevant to such payment that is requested by the party that is not the Notifying Party or by either party where the Notifying Party is the Calculation Agent, if and to the extent that such Servicer Report is reasonably available to the Notifying Party (whether or not the Notifying Party is a holder of the Reference Obligation).

(b) *Calculation Agent and Buyer and Seller Determinations*

The Calculation Agent shall be responsible for determining and calculating (i) the Fixed Amount payable on each Fixed Rate Payer Payment Date; (ii) the occurrence of a Floating Amount Event and the related Floating Amount and (iii) the occurrence of an Additional Fixed Payment Event and the related Additional Fixed Amount; provided that notwithstanding the above, each of Buyer and Seller shall be entitled to determine and calculate the above amounts to the extent that Buyer or Seller, as applicable, has the right to deliver a notice to the other party demanding payment of such amount. The Calculation Agent or Buyer or Seller, as applicable, shall make such determinations and calculations based solely on the basis of the Servicer Reports, to the extent such Servicer Reports are reasonably available to the Calculation Agent or such party. The Calculation Agent or Buyer or Seller, as applicable, shall, as soon as practicable after making any of the determinations or calculations specified in (i) and (ii) above, notify the parties or the other party, as applicable, of such determinations and calculations. For the avoidance of doubt, if an Interest Shortfall Amount is not explicitly set out in the Servicer Report but the Calculation Agent determines that an Interest Shortfall has occurred on the basis of information in such Servicer Report, then the relevant Interest Shortfall Amount shall be calculated by the Calculation Agent on the basis of such information.5

(c) *Adjustment of Calculation Agent Determinations*

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5 This is intended to cover any situation in which the Servicer Report does not report on Interest Shortfalls.

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To the extent that a Servicer furnishes any Servicer Reports correcting information contained in previously issued Servicer Reports, and such corrections impact calculations pursuant to the Transaction, the calculations relevant to the Transaction shall be adjusted retroactively by the Calculation Agent to reflect the corrected information (provided that, for the avoidance of doubt, no amounts in respect of interest shall be payable by either party and provided that the Calculation Agent in performing the calculations pursuant to this paragraph will assume that no interest has accrued on any adjusted amount), and the Calculation Agent shall promptly notify both parties of any corrected payments required by either party. Any required corrected payments shall be made within five Business Days of the day on which such notification by the Calculation Agent is effective.

9. Additional Definitions and Amendments to the Credit Derivatives Definitions

(a) References in Sections 4.1, 8.2, 9.1 and 9.2(a) of the Credit Derivatives Definitions as well as Section 3(a)(iv) of the form of Novation Agreement set forth in Exhibit E to the Credit Derivatives Definitions to the Reference Entity shall be deemed to be references to both the Reference Entity and the Insurer in respect of the Reference Policy, if applicable.

(b) (i) The definition of "Publicly Available Information" in Section 3.5 of the Credit Derivatives Definitions shall be amended by (i) inserting the words "the Insurer in respect of the Reference Policy, if applicable" at the end of subparagraph (a)(ii)(A) thereof, (ii) inserting the words ", servicer, sub-servicer, master servicer" before the words "or paying agent" in subparagraph (a)(ii)(B) thereof and (iii) deleting the word "or" at the end of subparagraph (a)(iii) thereof and inserting at the end of subparagraph (a)(iv) thereof the following: "or (v) is information contained in a notice or on a website published by an internationally recognized rating agency that has at any time rated the Reference Obligation".

(ii) The definition of "Physical Settlement" in Section 8.1 of the Credit Derivatives Definitions shall be amended by (i) deleting the words "Physical Settlement Amount" from the last line of the second paragraph thereof and (ii) inserting in lieu thereof the words "Exercise Amount".

(iii) The definition of "Physical Settlement Date" in Section 8.4 of the Credit Derivatives Definitions shall be amended by deleting the last sentence thereof.

(c) For the purposes of the Transaction only, the following terms have the meanings given below:

"Actual Principal Amount" means, with respect to the Final Amortization Date or the Legal Final Maturity Date, an amount paid on such day by or on behalf of the Issuer in respect of principal (excluding any amount representing capitalized interest that relates to the Term of the Transaction) to the holder(s) of the Reference Obligation in respect of the Reference Obligation.

"Aggregate Implied Writedown Amount" means the greater of (i) zero and (ii) the aggregate of all Implied Writedown Amounts minus the aggregate of all Implied Writedown Reimbursement Amounts.

"Current Factor" means the factor of the Reference Obligation as specified in the most recent Servicer Report; provided that if the factor is not specified in the most recent Servicer Report or the factor specified includes deferred or capitalized interest that relates to the Term of the Transaction, then the Current Factor shall be the ratio equal to (i) the Outstanding Principal Amount as of such date, determined in accordance with the most recent Servicer Report over (ii) the Original Principal Amount.

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"Current Period Implied Writedown Amount" means, in respect of a Reference Obligation Calculation Period, an amount determined as of the last day of such Reference Obligation Calculation Period equal to the greater of:

(i) zero; and

(ii) the product of:

(A) the Implied Writedown Percentage; and

(B) the greater of:

(1) zero; and

(2) the lesser of (x) the Pari Passu Amount and (y) the Pari Passu Amount plus the Senior Amount minus the aggregate outstanding asset pool balance securing the payment obligations on the Reference Obligation (all such outstanding asset pool balances as obtained by the Calculation Agent from the most recently dated Servicer Report available as of such day), calculated based on the face amount of the assets then in such pool, whether or not any such asset is performing.

"Delayed Payment" means, with respect to a Delivery Date, a Principal Payment, Principal Shortfall Reimbursement or a Writedown Reimbursement within paragraph (i) of the definition of "Writedown Reimbursement" that is described in a Servicer Report delivered to holders of the Reference Obligation or to the Calculation Agent on or after such Delivery Date.

"Delayed Payment Amount" means, if persons who are holders of the Reference Obligation as of a date prior to a Delivery Date are paid a Delayed Payment on or after such Delivery Date, an amount equal to the product of (i) the sum of all such Delayed Payments, (ii) the Reference Price, (iii) the Applicable Percentage immediately prior to such Delivery Date and (iv) the Exercise Percentage.

"Distressed Ratings Downgrade" means that the Reference Obligation:

(i) if publicly rated by Moody's, (A) is downgraded to "Caa2" or below by Moody's or (B) has the rating assigned to it by Moody's withdrawn and, in either case, not reinstated within five Business Days of such downgrade or withdrawal; provided that if such Reference Obligation was assigned a public rating of "Baa3" or higher by Moody's immediately prior to the occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "Caa1" by Moody's within three calendar months 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 shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "CCC+" by Standard & Poor's within three calendar months 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 shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "CCC+" by Fitch within three calendar months after such withdrawal.

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"Effective Maturity Date" means the earlier of (a) the Scheduled Termination Date and (b) the Final Amortization Date.

"Exercise Amount" means, for purposes of the Transaction, an amount to which a Notice of Physical Settlement relates equal to the product of (i) the original face amount of the Reference Obligation to be Delivered by Buyer to Seller on the applicable Physical Settlement Date; and (ii) the Current Factor as of such date. The Exercise Amount to which a Notice of Physical Settlement relates shall (A) be equal to or less than the Reference Obligation Notional Amount (determined, for this purpose, without regard to the effect of any Writedown or Writedown Reimbursement within paragraphs (i)(B) or (iii) of "Writedown" or paragraphs (ii)(B) or (iii) of "Writedown Reimbursement", respectively) as of the date on which the relevant Notice of Physical Settlement is delivered calculated as though the Physical Settlement of all previously delivered Notices of Physical Settlement has occurred in full and (B) not be less than the lesser of (1) the Reference Obligation Notional Amount as of the date on which the relevant Notice of Physical Settlement is delivered calculated as though Physical Settlement in respect of all previously delivered Notices of Physical Settlement has occurred in full and (2) USD100,000. The cumulative original face amount of Deliverable Obligations specified in all Notices of Physical Settlement shall not at any time exceed the Initial Face Amount. For the avoidance of doubt: (a) if any capitalization or deferral of interest in respect of the Reference Obligation has occurred during the Term of the Transaction and has not been recovered by holders of the Reference Obligation pursuant to the terms of the Underlying Instruments, then, for the purpose of determining the amount of Deliverable Obligations to be Delivered, the Exercise Amount (determined above by reference to the original face amount) will represent an outstanding principal balance of the Reference Obligation to be Delivered by Buyer that includes the proportion of unrecovered interest attributable to the Reference Obligation to be Delivered and (b) notwithstanding the foregoing, the Physical Settlement Amount payable by Seller in relation to such Exercise Amount shall not include any amount in respect of such unrecovered interest.

"Exercise Percentage" means, with respect to a Notice of Physical Settlement, a percentage equal to the original face amount of the Deliverable Obligations specified in such Notice of Physical Settlement divided by an amount equal to (i) the Initial Face Amount minus (ii) the aggregate of the original face amount of all Deliverable Obligations specified in all previously delivered Notices of Physical Settlement.

"Expected Principal Amount" means, with respect to the Final Amortization Date or the Legal Final Maturity Date, an amount equal to (i) the Outstanding Principal Amount of the Reference Obligation payable on such day (excluding any amount representing capitalized interest that relates to the Term of the Transaction) assuming for this purpose that sufficient funds are available for such payment, where such amount shall be determined in accordance with the Underlying Instruments, minus (ii) the sum of (A) the Aggregate Implied Writedown Amount (if any) and (B) the net aggregate principal deficiency balance or realized loss amounts (however described in the Underlying Instruments) that are attributable to the Reference Obligation. The Expected Principal Amount shall be determined without regard to the effect of any provisions (however described) of the Underlying Instruments that permit the limitation of due payments or distributions of funds in accordance with the terms of such Reference Obligation or that provide for the extinguishing or reduction of such payments or distributions.

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

"Final Amortization Date" means the first to occur of (i) the date on which the Reference Obligation Notional Amount is reduced to zero and (ii) the date on which the assets securing the Reference Obligation or designated to fund amounts due in respect of the Reference Obligation are liquidated,

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distributed or otherwise disposed of in full and the proceeds thereof are distributed or otherwise disposed of in full.

"Fitch" means Fitch Ratings or any successor to its rating business.

"Implied Writedown Amount" means, (i) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) of the definition of "Writedown" to occur in respect of the Reference Obligation, on any Reference Obligation Payment Date, an amount determined by the Calculation Agent equal to the excess, if any, of the Current Period Implied Writedown Amount over the Previous Period Implied Writedown Amount, in each case in respect of the Reference Obligation Calculation Period to which such Reference Obligation Payment Date relates, and (ii) in any other case, zero.

"Implied Writedown Percentage" means (i) the Outstanding Principal Amount divided by (ii) the Pari Passu Amount.

"Implied Writedown Reimbursement Amount" means, (i) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) of the definition of "Writedown" to occur in respect of the Reference Obligation, on any Reference Obligation Payment Date, an amount determined by the Calculation Agent equal to the excess, if any, of the Previous Period Implied Writedown Amount over the Current Period Implied Writedown Amount, in each case in respect of the Reference Obligation Calculation Period to which such Reference Obligation Payment Date relates, and (ii) in any other case, zero, provided that the aggregate of all Implied Writedown Reimbursement Amounts at any time shall not exceed the Outstanding Principal Amount.

"Legal Final Maturity Date" means the date set out in paragraph 1 above (subject, for the avoidance of doubt, to any business day convention applicable to the legal final maturity date of the Reference Obligation), provided that if the legal final maturity date of the Reference Obligation is amended, the Legal Final Maturity Date shall be such date as amended.

"Moody's" means Moody's Investors Service, Inc. or any successor to its rating business.

"Outstanding Principal Amount" means, as of any date of determination with respect to the Reference Obligation, the outstanding principal balance of the Reference Obligation as of such date, which shall take into account:

(i) all payments of principal;

(ii) all writedowns or applied losses (however described in the Underlying Instruments) resulting in a reduction in the outstanding principal balance of the Reference Obligation (other than as a result of a scheduled or unscheduled payment of principal);

(iii) forgiveness of any amount by the holders of the Reference Obligation pursuant to an amendment to the Underlying Instruments resulting in a reduction in the outstanding principal balance of the Reference Obligation;

(iv) any payments reducing the amount of any reductions described in (ii) and (iii) of this definition; and

(v) any increase in the outstanding principal balance of the Reference Obligation that reflects a reversal of any prior reductions described in (ii) and (iii) of this definition; and

(vi) any increase in the outstanding principal balance of the Reference Obligation that is attributable to the deferral or capitalization of interest prior to the Effective Date.

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For the avoidance of doubt, the Outstanding Principal Amount shall not include any portion of the outstanding principal balance of the Reference Obligation that is attributable to the deferral or capitalization of interest during the Term of this Transaction.

"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.

"Previous Period Implied Writedown Amount" means, in respect of a Reference Obligation Calculation Period, the Current Period Implied Writedown Amount as determined in relation to the last day of the immediately preceding Reference Obligation Calculation Period.

"Principal Payment" means, with respect to any Reference Obligation Payment Date, the occurrence of a payment of an amount to the holders of the Reference Obligation in respect of principal (scheduled or unscheduled) in respect of the Reference Obligation other than a payment in respect of principal representing capitalized interest that relates to the Term of the Transaction, excluding, for the avoidance of doubt, any Writedown Reimbursement or Interest Shortfall Reimbursement.

"Principal Payment Amount" means, with respect to any Reference Obligation Payment Date, an amount equal to the product of (i) the amount of any Principal Payment on such date and (ii) the Applicable Percentage.

"Principal Shortfall Amount" means, in respect of a Failure to Pay Principal, an amount equal to the greater of:

(i) zero; and

(ii) the amount equal to the product of:

(A) the Expected Principal Amount minus the Actual Principal Amount;

(B) the Applicable Percentage; and

(C) the Reference Price.

If the Principal Shortfall Amount would be greater than the Reference Obligation Notional Amount immediately prior to the occurrence of such Failure to Pay Principal, then the Principal Shortfall Amount shall be deemed to be equal to the Reference Obligation Notional Amount at such time.

"Principal Shortfall Reimbursement" means, with respect to any day, the payment by or on behalf of the Issuer of an amount in respect of the Reference Obligation in or toward the satisfaction of any deferral of or failure to pay principal arising from one or more prior occurrences of a Failure to Pay Principal.

"Principal Shortfall Reimbursement Amount" means, with respect to any day, the product of (i) the amount of any Principal Shortfall Reimbursement on such day, (ii) the Applicable Percentage and (iii) the Reference Price.

"Principal Shortfall Reimbursement Payment Amount" means, with respect to an Additional Fixed Amount Payment Date, the sum of the Principal Shortfall Reimbursement Amounts in respect of all Principal Shortfall Reimbursements (if any) made during the Reference Obligation Calculation Period relating to such Additional Fixed Amount Payment Date, provided that the aggregate of all Principal Shortfall Reimbursement Payment Amounts at any time shall not exceed the aggregate of all Floating Amounts paid by Seller in respect of occurrences of Failure to Pay Principal prior to such Additional Fixed Amount Payment Date.

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"Rating Agencies" means Fitch, Moody's and Standard & Poor's.

"Reference Obligation Calculation Period" means, with respect to each Reference Obligation Payment Date, a period corresponding to the interest accrual period relating to such Reference Obligation Payment Date pursuant to the Underlying Instruments.

"Reference Obligation Coupon" means the periodic interest rate applied in relation to each Reference Obligation Calculation Period on the related Reference Obligation Payment Date, as determined in accordance with the terms of the Underlying Instruments as at the Effective Date, without regard to any subsequent amendment.

"Reference Obligation Payment Date" means (i) each scheduled distribution date for the Reference Obligation occurring on or after the Effective Date and on or prior to the Scheduled Termination Date, determined in accordance with the Underlying Instruments and (ii) any day after the Effective Maturity Date on which a payment is made in respect of the Reference Obligation.

"Relevant Amount" means, if a Servicer Report that describes a Principal Payment, Writedown or Writedown Reimbursement (other than a Writedown Reimbursement within paragraph (i) of "Writedown Reimbursement"), in each case that has the effect of decreasing or increasing the interest-accruing principal balance of the Reference Obligation as of a date prior to a Delivery Date but such Servicer Report is delivered to holders of the Reference Obligation or to the Calculation Agent on or after such Delivery Date, an amount equal to the product of (i) the sum of any such Principal Payment (expressed as a positive amount), Writedown (expressed as a positive amount) or Writedown Reimbursement (expressed as a negative amount), as applicable; (ii) the Reference Price; (iii) the Applicable Percentage immediately prior to such Delivery Date; and (iv) the Exercise Percentage.

"Senior Amount" means, as of any day, the aggregate outstanding principal balance of all obligations of the Reference Entity secured by the Underlying Assets and ranking senior in priority to the Reference Obligation.

"Servicer" means any trustee, servicer, sub-servicer, master servicer, fiscal agent, paying agent or other similar entity responsible for calculating payment amounts or providing reports pursuant to the Underlying Instruments.

"Servicer Reports" means periodic statements or reports regarding the Reference Obligation provided by the Servicer to holders of the Reference Obligation.

"Standard & Poor's" means Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. or any successor to its rating business.

"Underlying Assets" means the assets securing the Reference Obligation for the benefit of the holders of the Reference Obligation and which are expected to generate the cashflows required for the servicing and repayment (in whole or in part) of the Reference Obligation, or the assets to which a holder of such Reference Obligation is economically exposed where such exposure is created synthetically.

"Underlying Instruments" means the indenture, trust agreement, pooling and servicing agreement or other relevant agreement(s) setting forth the terms of the Reference Obligation.

"Writedown" means the occurrence at any time on or after the Effective Date of:

(i) (A) a writedown or applied loss (however described in the Underlying Instruments) resulting in a reduction in the Outstanding Principal Amount (other than as a result of a scheduled or unscheduled payment of principal); or

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(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; or

(iii) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) above to occur in respect of the Reference Obligation, an Implied Writedown Amount being determined in respect of the Reference Obligation by the Calculation Agent.

"Writedown Amount" means, with respect to any day, the product of (i) the amount of any Writedown on such day, (ii) the Applicable Percentage and (iii) the Reference Price.

"Writedown Reimbursement" means, with respect to any day, the occurrence of:

(i) a payment by or on behalf of the Issuer of an amount in respect of the Reference Obligation in reduction of any prior Writedowns;

(ii) (A) an increase by or on behalf of the Issuer of the Outstanding Principal Amount of the Reference Obligation to reflect the reversal of any prior Writedowns; or

(B) a decrease in the principal deficiency balance or realized loss amounts (however described in the Underlying Instruments) attributable to the Reference Obligation; or

(iii) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (ii) above to occur in respect of the Reference Obligation, an Implied Writedown Reimbursement Amount being determined in respect of the Reference Obligation by the Calculation Agent.

"Writedown Reimbursement Amount" means, with respect to any day, an amount equal to the product of:

(i) the sum of all Writedown Reimbursements on that day;

(ii) the Applicable Percentage; and

(iii) the Reference Price.

"Writedown Reimbursement Payment Amount" means, with respect to an Additional Fixed Amount Payment Date, the sum of the Writedown Reimbursement Amounts in respect of all Writedown Reimbursements (if any) made during the Reference Obligation Calculation Period relating to such Additional Fixed Amount Payment Date, provided that the aggregate of all Writedown Reimbursement Payment Amounts at any time shall not exceed the aggregate of all Floating Amounts paid by Seller in respect of Writedowns occurring prior to such Additional Fixed Amount Payment Date.

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Interest Shortfall Cap Annex

If Interest Shortfall Cap is specified as applicable in the relevant Confirmation, then the following provisions will apply:

Interest Shortfall Cap Basis:	As shown in the relevant Confirmation.
Interest Shortfall Cap Amount:	If the Interest Shortfall Cap Basis is Fixed Cap, the Interest Shortfall Cap Amount in respect of an Interest Shortfall shall be the Fixed Amount calculated in respect of the Fixed Rate Payer Payment Date immediately following the Reference Obligation Payment Date on which the relevant Interest Shortfall occurred. If the Interest Shortfall Cap Basis is Variable Cap, the Interest Shortfall Cap Amount applicable in respect of a Floating Rate Payer Payment Date shall be an amount equal to the product of: (a) the sum of the Relevant Rate and the Fixed Rate applicable to the Fixed Rate Payer Calculation Period immediately preceding the Reference Obligation Payment Date on which the relevant Interest Shortfall occurs; (b) the amount determined by the Calculation Agent under sub-clause (b) of the definition of "Fixed Amount" in relation to the relevant Fixed Rate Payer Payment Date; and (c) the actual number of days in such Fixed Rate Payer Calculation Period divided by 360.
Interest Shortfall Compounding:	As shown in the relevant Confirmation.
Interest Shortfall Reimbursement Payment Amount:	If Interest Shortfall Cap is specified as applicable in the relevant Confirmation, then with respect to the first Additional Fixed Amount Payment Date, zero, and with respect to any subsequent Additional Fixed Amount Payment Date and calculated as of the Reference Obligation Payment Date immediately preceding such Additional Fixed Amount Payment Date, as specified by the Calculation Agent in its notice to the parties or by Seller in its notice to Buyer of the existence of an Interest Shortfall Reimbursement, an amount equal to the greater of: (a) zero; and (b) the amount equal to: (i) the product of: (A) the Cumulative Interest Shortfall

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Payment Amount as of the Additional Fixed Amount Payment Date immediately preceding such Reference Obligation Payment Date; and

(B) either:

(1) if Interest Shortfall Compounding is specified as applicable in the relevant Confirmation, the relevant Cumulative Interest Shortfall Payment Compounding Factor for the Fixed Rate Payer Calculation Period immediately preceding such Additional Fixed Amount Payment Date (or 1.0 in respect of any Additional Fixed Amount Payment Date occurring after the final Fixed Rate Payer Payment Date); or

(2) if Interest Shortfall Compounding is specified as not applicable in the relevant Confirmation, 1;

minus

(ii) the Cumulative Interest Shortfall Amount as of such Reference Obligation Payment Date;

provided that if the Interest Shortfall Reimbursement Payment Amount on an Additional Fixed Amount Payment Date would exceed the Interest Shortfall Reimbursement Amount in respect of the related Reference Obligation Payment Date, then such Interest Shortfall Reimbursement Payment Amount shall be deemed to be equal to such Interest Shortfall Reimbursement Amount.

Cumulative Interest Shortfall Amount: With respect to any Reference Obligation Payment Date, an amount equal to the greater of:

(a) zero; and

(b) an amount equal to:

(i) the Cumulative Interest Shortfall Amount as of the Reference Obligation Payment Date immediately preceding such Reference Obligation Payment Date or, in the case of

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the first Reference Obligation Payment Date, zero; plus

(ii) the Interest Shortfall Amount (if any) in respect of such Reference Obligation Payment Date; plus

(iii) either:

(A) if Interest Shortfall Compounding is specified as applicable in the relevant Confirmation, an amount determined by the Calculation Agent as the amount of interest that would accrue on the Cumulative Interest Shortfall Amount immediately preceding such Reference Obligation Payment Date during the related Reference Obligation Calculation Period pursuant to the Underlying Instruments or, in the case of the first Reference Obligation Payment Date, zero; or

(B) if Interest Shortfall Compounding is specified as not applicable in the relevant Confirmation, 0; minus

(iv) the Interest Shortfall Reimbursement Amount (if any) in respect of such Reference Obligation Payment Date.

Upon the occurrence of each Delivery, the Cumulative Interest Shortfall Amount shall be multiplied by a fraction equal to (a) the Applicable Percentage immediately following such Delivery divided by (b) the Applicable Percentage immediately prior to such Delivery; provided, however, that if more than one Delivery is made during a Reference Obligation Calculation Period, the Cumulative Interest Shortfall Amount calculated as of the Reference Obligation Payment Date occurring immediately after such Reference Obligation Calculation Period shall be multiplied by a fraction equal to (a) the Applicable Percentage immediately following the final Delivery made during such Reference Obligation Calculation Period over (b) the Applicable Percentage immediately prior to the first Delivery made during such Reference Obligation Calculation Period.

Cumulative Interest Shortfall Payment Amount: The Cumulative Interest Shortfall Payment Amount with respect to any Fixed Rate Payer Payment Date and any Additional Fixed Amount Payment Date falling on such Fixed Rate Payer Payment Date shall be an amount equal to the greater of:

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(a) zero; and

(b) the amount equal to:

(i) the sum of:

(A) the Interest Shortfall Payment Amount for the Reference Obligation Payment Date corresponding to such Fixed Rate Payer Payment Date; and

(B) the product of:

(1) the Cumulative Interest Shortfall Payment Amount as of the Fixed Rate Payer Payment Date immediately preceding such Fixed Rate Payer Payment Date (or zero in the case of the first Fixed Rate Payer Payment Date); and

(2) either:

(AA) if Interest Shortfall Compounding is specified as applicable in the relevant Confirmation, the relevant Cumulative Interest Shortfall Payment Compounding Factor; or

(BB) if Interest Shortfall Compounding is specified as not applicable in the relevant Confirmation, 1;

minus

(ii) any Interest Shortfall Reimbursement Payment Amount paid on such Fixed Rate Payer Payment Date.

With respect to any Additional Fixed Amount Payment Date falling after the final Fixed Rate Payer Payment Date, the Cumulative Interest Shortfall Payment Amount shall be equal to:

(x) the Cumulative Interest Shortfall Payment Amount as of the Additional Fixed Amount Payment Date immediately preceding such Additional Fixed Amount Payment Date (or as of the final Fixed Rate

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Payer Payment Date in the case of the first Additional Fixed Amount Payment Date occurring after the final Fixed Rate Payer Payment Date); minus

(y) any Interest Shortfall Reimbursement Payment Amount paid on such Additional Fixed Amount Payment Date.

Upon the occurrence of each Delivery, the Cumulative Interest Shortfall Payment Amount shall be multiplied by a fraction equal to (a) the Applicable Percentage immediately following such Delivery divided by (b) the Applicable Percentage immediately prior to such Delivery; provided, however, that if more than one Delivery is made during a Reference Obligation Calculation Period, the Cumulative Interest Shortfall Payment Amount calculated as of the Reference Obligation Payment Date occurring immediately after such Reference Obligation Calculation Period shall be multiplied by a fraction equal to (a) the Applicable Percentage immediately following the final Delivery made during such Reference Obligation Calculation Period and (b) the Applicable Percentage immediately prior to the first Delivery made during such Reference Obligation Calculation Period.

Cumulative Interest Shortfall Payment Compounding Factor: With respect to any Fixed Rate Payer Calculation Period, an amount equal to the sum of:

(a) 1.0;

plus

(b) the product of:

(i) the sum of (A) the Relevant Rate plus (B) the Fixed Rate; and

(ii) the actual number of days in such Fixed Rate Payer Calculation Period divided by 360;

provided, however, that the Cumulative Interest Shortfall Payment Compounding Factor shall be deemed to be 1.0 during the period from but excluding the Effective Maturity Date to and including the Termination Date.

Relevant Rate: With respect to a Fixed Rate Payer Calculation Period, the Floating Rate, expressed as a decimal number with seven decimal places, that would be determined if:

(a) the 2000 ISDA Definitions (and not the 2003 ISDA Credit Derivatives Definitions) applied to this paragraph;

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(b) the Fixed Rate Payer Calculation Period were a "Calculation Period" for purposes of such determination; and

(c) the following terms applied:

(i) the Floating Rate Option were the Rate Source;

(ii) the Designated Maturity were the period that corresponds to the usual length of a Fixed Rate Payer Calculation Period; and

(iii) the Reset Date were the first day of the Calculation Period;

provided, however, that the Relevant Rate shall be deemed to be zero during the period from but excluding the Effective Maturity Date to and including the Termination Date.

Rate Source: As shown in the relevant Confirmation.

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Schedule

Form of Novation Confirmation

[Headed paper of Party A]

NOVATION CONFIRMATION

for use with the ISDA Standard Terms Supplement for use with Credit Derivative Transaction on Mortgage-Backed Security with Pay-As-You-Go or Physical Settlement as published by the International Swaps and Derivatives Association, Inc.

Date:

To: [Name and Address or Facsimile Number of Party B and Party C]

From: [Party A]

Re: Novation Transaction

Dear _____:

The purpose of this [facsimile][letter] is to confirm the terms and conditions of the Novation Transaction entered into between the parties and effective from the Novation Date specified below. This Novation Confirmation constitutes a "Confirmation" as referred to in the New Agreement specified below.

1. The definitions and provisions contained in the 2004 ISDA Novation Definitions (the "Definitions"), the terms and provisions of the 2003 ISDA Credit Derivatives Definitions (the "Credit Derivatives Definitions"), as published by the International Swaps and Derivatives Association, Inc. and amended from time to time and the Annex hereto are each incorporated in this Novation Confirmation. In the event of any inconsistency between (i) the Definitions (as amended by the Annex hereto), (ii) the Credit Derivatives Definitions and/or (iii) the Novation Agreement (as amended by the Annex hereto), this Novation Confirmation will govern.

2. The terms of the Novation Transaction to which this Novation Confirmation relates are as follows:

[Novation Trade Date:]
Novation Date:
Novated Percentage:
[Transferor][Transferor 1 (and notwithstanding Section 1.5 of the Definitions)]:
[Transferor 2 (and notwithstanding Section 1.5 of the Definitions)]:
[Transferee][Transferee 1]:
[Remaining Party (and notwithstanding Section 1.6 of the Definitions)][Transferee 2 (and notwithstanding Section 1.6 of the Definitions)]:
[New Agreement (between [Transferee 1 and Transferee 2][Transferee and Remaining Party])]: ISDA Master Agreement [dated as of_____][as per Section 1.11 of the Definitions] subject to [English law][the laws of the State of New York]

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3. The terms of each Old Transaction to which this Novation Confirmation relates[, for identification purposes, are as follows:][shall be specified in the copy of the Old Confirmation attached hereto as Exhibit A.]

Reference Entity:
Reference Obligation:
Trade Date of Old Transaction:
Effective Date of Old Transaction:
Applicable Percentage of Old Transaction:
Scheduled Termination Date of Old Transaction:

4. The terms of each New Transaction to which this Novation Confirmation relates [are as follows:][shall be specified in Section[s] __ [,___and___] of] the copy of the Old Confirmation attached hereto as Exhibit A.][shall be specified in the New Confirmation attached hereto as Exhibit [A][B]].

Full First Calculation Period	Applicable, [commencing on [ ]] [commencing on [ ], with respect to any amounts to be paid by the Transferee, and [ ], with respect to any amounts to be paid by the Remaining Party.

5. Other Provisions: [[Additional Provisions relating to the New Transaction][Credit Support Documents relating to the New Transaction]]:

6. Miscellaneous Provisions: [Non-Reliance][ ]

7. Notice Details:

Telephone and/or Facsimile Numbers for Notices:
Transferee: [ ]
Remaining Party: [ ]

8. [The parties confirm their acceptance to be bound by this Novation Confirmation as of the Novation Date by executing a copy of this Novation Confirmation and returning it to us]. The Transferor, by its execution of a copy of this Novation Confirmation, agrees to the terms of the Novation Confirmation as it relates to each Old Transaction. The Transferee, by its execution of a copy of this Novation Confirmation, agrees to the terms of the Novation Confirmation as it relates to each New Transaction.].

9. The Remaining Party and the Transferee agree that, notwithstanding any provision in the Old Transaction to which this Novation Confirmation relates, all rights of the Remaining Party and the Transferor in respect of Floating Amounts and Additional Fixed Amounts that arose before the Novation Date shall be deemed to have been exercised and all obligations of such parties in respect of such events that have arisen or are deemed to have arisen shall be deemed to have been satisfied in full, in each case solely for the purposes of determining the rights and obligations of the Remaining Party and the Transferee under the New Transaction. Nothing in this paragraph shall affect the rights or obligations of the Remaining Party or the Transferor under the Old Transaction.

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.....
(Name of Remaining Party)

By: .....
Name:
Title:
Date:

.....
(Name of Transferor)

By: .....
Name:
Title:
Date:

.....
(Name of Transferee)

By: .....
Name: .....
Title: .....
Date: .....

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Annex

1. Section 2(a) of the Novation Agreement shall be deemed to be amended as follows:

   (a) by the insertion of "(i)" after the words "with respect to" in the fifth line thereof; and

   (b) by the addition of the following at the end thereof:

   "and any rights or obligations arising in respect of Floating Amount Events or Additional Fixed Amount Events, in each case in respect of which the Remaining Party or the Transferor (each an "Original Party"), as applicable, had the right to deliver a notice pursuant to the terms of the Old Transaction but such notice was not delivered by that party or the Calculation Agent prior to the Novation Date (each an "Excluded Event") provided that the rights of the Original Parties to deliver a notice in respect of an Excluded Event pursuant to the Old Transaction shall expire on the 60thcalendar day following the Novation Date."

2. Section 2(b) of the Novation Agreement shall be deemed to be amended by the addition of the following after the words "Novation Date," in the last line thereof:

   "but excluding any rights or obligations in respect of Excluded Events,"

3. The definition of "Novated Amount" in Section 1.18 of the Definitions shall be replaced by the following definition of "Novated Percentage":

   ""Novated Percentage" means the portion of the Applicable Percentage of the Old Transaction that is the subject of the Novation Transaction. If the Novated Percentage is less than 100% of the Applicable Percentage of the Old Transaction, the Old Transaction shall remain in full force and effect but all future payments, deliveries and calculations thereunder shall be based on an Applicable Percentage that has been reduced by the relevant Novated Percentage."

   Each reference to "Novated Amount" in the Definitions and the Novation Agreement shall be deemed to be a reference to "Novated Percentage".

4. Section 2.1(a)(iii)(D)(i) of the Definitions shall not apply.

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SCHEDULE H

FORM OF CONFIRMATION FOR ABX TRANCHE SECURITIES

Deutsche Bank AG 

DATE: [Date]

TO: Gemstone CDO VII Ltd.
Facsimile No: [number]

FROM: Deutsche Bank AG, acting through its London Branch

SUBJECT: ABX [specify series, tranche and version, if any] Transaction

REF NO: [ ]

The purpose of this communication (this "Confirmation") is to set forth the terms and conditions of the Master Transaction (as defined in the ABX Standard Terms (as defined below)) relating to residential mortgage-backed security reference obligations entered into between you Gemstone CDO VII Ltd. ("Party B") and us Deutsche Bank AG, acting through its London Branch ("Party A"). This Confirmation constitutes a "Confirmation" as referred to in the ISDA Master Agreement specified below.

The definitions and provisions contained in the 2003 ISDA Credit Derivatives Definitions, as published by the International Swaps and Derivatives Association, Inc. (the "Credit Derivatives Definitions"), and the ABX Transactions Standard Terms Supplement, as published by CDS IndexCo LLC on January 19, 2006 (the "ABX Standard Terms"), are incorporated into this Confirmation. In the event of any inconsistency between the Credit Derivatives Definitions or the ABX Standard Terms and this Confirmation, this Confirmation will govern. In the event of any inconsistency between the ABX Standard Terms and the Credit Derivatives Definitions, the ABX Standard Terms will govern.

This Confirmation supplements, forms a part of and is subject to the 1992 ISDA Master Agreement (Multicurrency - Cross Border) and the Schedule thereto, dated as of [____], as amended and supplemented from time to time (the "Master Agreement"), between Party A and Party B. All provisions contained in, or incorporated by reference in, the Master Agreement shall govern this Confirmation except as expressly modified below.

The terms of the Master Transaction to which this Confirmation relates are as follows:

Index:	ABX [specify series, tranche, and version, if any]
Annex Date:	[launch date of Index]
Trade Date:	[ ]
Effective Date:	[Trade Date]
Scheduled Termination Date:	[the latest Legal Final Maturity Date of any Reference Obligation in the Relevant Annex]
Floating Rate Payer:	[ ] (the "Seller")
Fixed Rate Payer:	[ ] (the "Buyer")
Aggregate Floating Rate Payer Calculation Amount:	[ ]
Fixed Rate:	[ ]% per annum [specify the fixed rate for the Index published by the Index Publisher as of the launch date]

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Initial Payment Payer:	[Buyer][Seller]
Initial Payment Amount:	[ ]
Additional Terms (if any):	Implied Writedown Amounts are not applicable to this Transaction. Without limiting the foregoing, for the purpose of any calculations required under this Confirmation, the following terms shall all be deemed to be equal to zero: "Aggregate Implied Writedown Amount", "Current Period Implied Writedown Amount", "Implied Writedown Amount", "Implied Writedown Percentage", "Implied Writedown Reimbursement Amount", or "Previous Period Implied Writedown Amount". The definition of "Writedown" in the ABX Standard Terms shall be deleted and replaced in its entirety with the following: "'Writedown' means the occurrence at any time on or after the Effective Date of: (i) (A) a writedown or applied loss (however described in the Underlying Instruments) resulting in a reduction in the Outstanding Principal Amount (other than as a result of a scheduled or unscheduled payment of principal); or (B) the attribution of a principal deficiency or realized loss (however described in the Underlying Instruments) to the Reference Obligation resulting in a reduction or subordination of the current interest payable on the Reference Obligation; or (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, provided that (A) Party A shall not give notice of a Floating Amount Event with respect to the portion of a Writedown resulting from forgiveness referred to in this subclause (ii) that was caused by the vote of Party A if Party A was the holder of 100% of such Reference Obligation, and (B) if, notwithstanding the preceding sub-clause (A), Party A gives notice of a Floating Amount Event with respect to the portion of a Writedown resulting from forgiveness referred to in this subclause (ii) that was caused by the vote of Party A if Party A was the holder of 100% of such Reference Obligation, then, as soon as practicable after Party A and Party B become aware of such occurrence, Party A and Party B shall refund to each other all payments, and reverse all other calculations and/or determinations, that occurred in connection with or resulting from Party A giving notice of such Floating Amount Event."

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For the avoidance of doubt, no payment in connection with clause (iii) of the definition of "Writedown" (as defined in the ABX Standard Terms and not as amended herein) shall be due or payable hereunder and the ABX Standard Terms shall be read accordingly.

The definition of "Additional Fixed Payments" in the ABX Standard Terms shall be deleted and replaced in its entirety with the following:

"Following the occurrence of an Additional Fixed Payment Event in respect of a Reference Obligation, Buyer shall pay the relevant Additional Fixed Amount to Seller on the first Additional Fixed Amount Payment Date falling at least two Business Days (or in the case of an Additional Fixed Payment Event that occurs after the second Business Day prior to the last Fixed Rate Payer Payment Date, five Business Days) after the delivery of a notice (an "Additional Fixed Payment Amount Notice") by the Calculation Agent to the parties or by Seller to Buyer stating that the related Additional Fixed Amount is due and showing in reasonable detail how such Additional Fixed Amount was determined; provided that any such notice must be given on or prior to the fifth Business Day following the day that is one calendar year after the Effective Maturity Date of such Reference Obligation (or, if this Transaction is terminated as a result of the occurrence of an Early Termination Date (as defined in the Agreement) other than following an Event of Default or Termination Event with respect to which the Seller is the Defaulting Party or sole Affected Party, the day that is one calendar year after such Early Termination Date.

Notwithstanding anything to the contrary herein, Buyer shall not be obligated to pay an Additional Fixed Amount unless the earliest day on which the related Additional Fixed Payment Date can be designated in accordance with the provision hereof occurs on or following the Effective Date."

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The definition of "Additional Fixed Payment Event" in the ABX Standard Terms shall be deleted and replaced in its entirety with the following:

"The occurrence on or after the Annex Date and on or before the day that is one calendar year after the Effective Maturity Date of a Writedown Reimbursement, a Principal Shortfall Reimbursement or an Interest Shortfall Reimbursement (or, if this Transaction is terminated as a result of the occurrence of an Early Termination Date (as defined in the Agreement) other than following an Event of Default or Termination Event with respect to which the Seller is the Defaulting Party or sole Affected Party, the day that is one calendar year after such Early Termination Date)."

Notice and Account Details:

Party A's Office/Telephone/Facsimile:	[address] Telephone: [ ] Facsimile: [ ]
Party B's Office/Telephone/Facsimile:	[address] Telephone: [ ] Facsimile: [ ]
Account Details of Party A:	For the Account of: [ ] Bank: [ ] Account No: [ ] Fed ABA No: [ ]
Account Details of Party B:	For the Account of: [ ] Bank: [ ] Account No: [ ] Fed ABA No: [ ]

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Please confirm your agreement to be bound by the terms of the foregoing by executing a copy of this Confirmation and returning it to us at the contact information listed above.

DEUTSCHE BANK AG, ACTING THROUGH ITS LONDON BRANCH

By:_____

Name:
Title:

By:_____

Name:
Title:

Confirmed as of the date first above written:

GEMSTONE CDO VII LTD.
By HBK Investments, L.P., New York Branch, as its Investment Manager

By:_____

Name:
Title:

By:_____

Name:
Title:

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ABX TRANSACTIONS
STANDARD TERMS SUPPLEMENT
(published on January 19, 2006)[1]

This ABX Transactions Standard Terms Supplement (the "ABX Standard Terms") hereby incorporates by reference the definitions and provisions contained in the 2003 ISDA Credit Derivatives Definitions, as published by the International Swaps and Derivatives Association, Inc. (the "Credit Derivatives Definitions"). In the event of any inconsistency between the Credit Derivatives Definitions and these ABX Standard Terms, these ABX Standard Terms will govern.

The parties agree that, by entering into a transaction governed by these ABX Standard Terms (a "Master Transaction"), they have entered into a separate Credit Derivative Transaction (each, a "Component Transaction") in respect of each Reference Obligation listed in the Relevant Annex (as defined below). Upon entering into a confirmation or other document (including in electronic form) (a "Confirmation") for a Master Transaction incorporating these ABX Standard Terms, the parties thereto shall be deemed to have entered into a Confirmation in respect of each such Component Transaction with respect to the related Reference Obligation listed in the Relevant Annex. Subject to paragraph 7 below and except as otherwise expressly provided herein or in the relevant Confirmation, each Component Transaction constitutes an independent Transaction for purposes of the Master Agreement (as specified in the relevant Confirmation).

References in these ABX Standard Terms to a Reference Obligation and the terms relating thereto shall be to the terms of such Reference Obligation set out in the applicable Underlying Instruments (as defined below) as amended from time to time unless otherwise specified below.

The terms of each Component Transaction to which these ABX Standard Terms relate are as follows:

1. **General Terms:**

Index:	As shown in the relevant Confirmation.
Index Sponsor:	CDS IndexCo LLC
Trade Date:	As shown in the relevant Confirmation.
Effective Date:	As shown in the relevant Confirmation.
Scheduled Termination Date:	As shown in the relevant Confirmation.
Component Transaction Scheduled Termination Date:	With respect to a Component Transaction, the Legal Final Maturity Date for the applicable Reference Obligation, subject to adjustment in accordance with the Following Business Day Convention.
Termination Date:	With respect to a Component Transaction, the last to occur of:

[1] The definitions and provisions of this ABX Transactions Standard Terms Supplement may be incorporated into a Confirmation (as defined herein) by wording in the Confirmation indicating that, or the extent to which, the Confirmation is subject to this ABX Transactions Standard Terms Supplement. All definitions and provisions so incorporated in a Confirmation will be applicable to that Confirmation unless otherwise provided in that Confirmation.

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	(a) the fifth Business Day following the Effective Maturity Date in respect of the relevant Reference Obligation; (b) the last Floating Rate Payer Payment Date in respect of such Reference Obligation; and (c) the last Additional Fixed Amount Payment Date in respect of such Reference Obligation.
Floating Rate Payer:	As shown in the relevant Confirmation (the "Seller").
Fixed Rate Payer:	As shown in the relevant Confirmation (the "Buyer").
Aggregate Floating Rate Payer Calculation Amount:	As shown in the relevant Confirmation.
Calculation Agent:	If both parties are licensees of the Index, Seller. If only one party is a licensee of the Index, such party.
Calculation Agent City:	New York.
Business Day:	New York and London.
Business Day Convention:	Following (which, with the exception of the Effective Date, the Final Amortization Date, each Reference Obligation Payment Date and the period end date of each Reference Obligation Calculation Period, shall apply to any date referred to in these ABX Standard Terms that falls on a day that is not a Business Day).
Reference Entity:	With respect to a Component Transaction, the applicable Reference Entity contained in the Index and listed in the Relevant Annex, and any entity that succeeds to the obligations of such Reference Entity under the related Reference Obligation. Section 2.2 of the Credit Derivatives Definitions shall not apply.
Reference Obligation:	With respect to a Component Transaction, the Reference Obligation specified in the Index and set out opposite the applicable Reference Entity in the Relevant Annex. Section 2.30 of the Credit Derivatives Definitions shall not apply. The Reference Obligation is used herein solely to make certain calculations hereunder and there is no requirement that Buyer or Seller own the Reference Obligation.

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Relevant Annex:	The list of Reference Entities and Reference Obligations for the relevant Index with the relevant Annex Date, as published by the Index Publisher (which can be accessed currently at http://www.markit.com). "Index Publisher" means Markit Group Limited (or its successor) or any replacement therefor appointed by the Index Sponsor for purposes of officially publishing the relevant Index.
Applicable Percentage:	On any day, with respect to a Reference Obligation, a percentage equal to A divided by B. "A" means, with respect to a Reference Obligation, the product of the Initial Face Amount and the Initial Factor. "B" means, with respect to a Reference Obligation, the product of the Original Principal Amount and the Initial Factor. (a) as increased by the outstanding principal balance of any further issues by the Reference Entity that are fungible with and form part of the same legal series as such Reference Obligation; and (b) as decreased by any cancellations of some or all of the Outstanding Principal Amount resulting from purchases of such Reference Obligation by or on behalf of the Reference Entity.
Initial Face Amount:	The Aggregate Floating Rate Payer Calculation Amount divided by the number of Reference Obligations in the Relevant Annex.
Initial Factor:	With respect to a Reference Obligation, the applicable factor published by the Index Publisher as of the Annex Date.
Reference Obligation Notional Amount:	With respect to a Reference Obligation, on the Annex Date, the product of: (a) the Original Principal Amount; (b) the Initial Factor; and (c) the Applicable Percentage. Following the Annex Date, the Reference Obligation Notional Amount with respect to a Reference Obligation will be: (i) decreased on each day on which a Principal Payment is made with respect to the Reference Obligation by the relevant Principal Payment Amount;

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(ii) decreased on the day, if any, on which a Failure to Pay Principal occurs with respect to the Reference Obligation by the relevant Principal Shortfall Amount;

(iii) decreased on each day on which a Writedown occurs with respect to the Reference Obligation by the relevant Writedown Amount; and

(iv) increased on each day on which a Writedown Reimbursement occurs with respect to the Reference Obligation by any Writedown Reimbursement Amount in respect of a Writedown Reimbursement within paragraphs (ii) or (iii) of the definition of "Writedown Reimbursement";

provided that if the relevant Reference Obligation Notional Amount would be less than zero, it shall be deemed to be zero.

Initial Payment: If an Initial Payment Payer and an Initial Payment Amount are specified in the relevant Confirmation, then on the date that is five Business Days following the Trade Date, and with respect to the Master Transaction and all related Component Transactions in the aggregate, the Initial Payment Payer shall pay to the other party the Initial Payment Amount. For the avoidance of doubt, the Initial Payment will not be made separately in respect of each Component Transaction.

Initial Payment Payer: As shown in the relevant Confirmation.

Initial Payment Amount: As shown in the relevant Confirmation.

2. **Fixed Payments:**

Fixed Rate: As shown in the relevant Confirmation.

Fixed Rate Payer Period End Date: The first day of each related Reference Obligation Calculation Period.

Fixed Rate Payer Calculation Period: Each period from and including one Fixed Rate Payer Period End Date to but excluding the next following Fixed Rate Payer Period End Date, except that (a) the initial Fixed Rate Payer Calculation Period will commence on, and include, the later of the Annex Date and the Fixed Rate Payer Period End Date falling on or immediately prior to the Trade Date and (b) the Final Fixed Rate Payer Calculation Period will end on, but include, the last day of the last Reference Obligation Calculation Period immediately prior to the final Fixed Rate Payer Payment Date.

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Fixed Rate Payer Payment Dates:	With respect to a Component Transaction, each day falling five Business Days after a Reference Obligation Payment Date for the Reference Obligation; provided that the final Fixed Rate Payer Payment Date shall fall on the fifth Business Day following the Effective Maturity Date of the Reference Obligation.
Fixed Amount:	With respect to any Fixed Rate Payer Payment Date for a Component Transaction, an amount equal to the product of: (a) the relevant Fixed Rate; (b) an amount determined by the Calculation Agent equal to: (i) the sum of the relevant Reference Obligation Notional Amount as at 5:00 p.m. in the Calculation Agent City on each day in the related Fixed Rate Payer Calculation Period; divided by (ii) the actual number of days in the related Fixed Rate Payer Calculation Period; and (c) the actual number of days in the related Fixed Rate Payer Calculation Period divided by 360. Notwithstanding anything to the contrary herein, Buyer shall not be obligated to pay Fixed Amounts for any Fixed Rate Payer Payment Date occurring prior to the Effective Date.
Additional Fixed Amount Payment Dates:	With respect to a Reference Obligation: (a) Each relevant Fixed Rate Payer Payment Date; and (b) in relation to each relevant Additional Fixed Payment Event occurring after the second Business Day prior to the last relevant Fixed Rate Payer Payment Date, the fifth Business Day after Buyer has received notification from Seller or the Calculation Agent of the occurrence of such Additional Fixed Payment Event.
Additional Fixed Payments:	Following the occurrence of an Additional Fixed Payment Event in respect of a Reference Obligation, Buyer shall pay the relevant Additional Fixed Amount to Seller on the first Additional Fixed Amount Payment Date for such Reference Obligation falling at least two Business Days (or in the case of an Additional Fixed Payment Event that occurs after the second Business Day prior to the last Fixed Rate Payer Payment Date for such Reference

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	Obligation, five Business Days) after the delivery of a notice (an "Additional Fixed Payment Amount Notice") by the Calculation Agent to the parties or by Seller to Buyer stating that the related Additional Fixed Amount is due and showing in reasonable detail how such Additional Fixed Amount was determined; provided that any such notice must be given on or prior to the fifth Business Day following the day that is one calendar year after the Effective Maturity Date of such Reference Obligation. Notwithstanding anything to the contrary herein, Buyer shall not be obligated to pay an Additional Fixed Amount unless the earliest day on which the related Additional Fixed Payment Date can be designated in accordance with the provisions hereof occurs on or following the Effective Date.
Additional Fixed Payment Event:	The occurrence on or after the Annex Date and on or before the day that is one calendar year after the Effective Maturity Date of a Writedown Reimbursement, a Principal Shortfall Reimbursement or an Interest Shortfall Reimbursement in respect of a Reference Obligation.
Additional Fixed Amount:	With respect to each Additional Fixed Amount Payment Date in respect of a Reference Obligation, an amount equal to the sum of: (a) the relevant Writedown Reimbursement Payment Amount (if any); (b) the relevant Principal Shortfall Reimbursement Payment Amount (if any); and (c) the relevant Interest Shortfall Reimbursement Payment Amount (if any).
3. Floating Payments:	
Floating Rate Payer Payment Dates:	In relation to a Floating Amount Event with respect to a Reference Obligation, the first relevant Fixed Rate Payer Payment Date falling at least two Business Days (or in the case of a Floating Amount Event that occurs on the Legal Final Maturity Date or the Final Amortization Date of such Reference Obligation, the fifth Business Day) after delivery of a notice (a "Floating Payment Notice") by the Calculation Agent to the parties or a notice by Buyer to Seller that the related Floating Amount is due and showing in reasonable detail how such Floating Amount was determined; provided that any such notice must be given on or prior to the fifth Business Day following the Effective Maturity Date.
Floating Payments:	If a Floating Amount Event occurs with respect to a Reference Obligation, then on the relevant Floating Rate Payer Payment Date, Seller will pay the relevant Floating Amount to Buyer. Notwithstanding anything to the contrary herein, Seller shall not be obligated to pay a

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Floating Amount unless the earliest day on which the related Floating Rate Payer Payment Date can be designated in accordance with the provisions hereof occurs on or following the Effective Date. For the avoidance of doubt, the Conditions to Settlement under the Credit Derivatives Definitions shall not apply.

Floating Amount Event:	A Writedown, a Failure to Pay Principal or an Interest Shortfall.
Floating Amount:	With respect to each Floating Rate Payer Payment Date in respect of a Reference Obligation, an amount equal to the sum of: (a) the relevant Writedown Amount (if any); (b) the relevant Principal Shortfall Amount (if any); and (c) the relevant Interest Shortfall Payment Amount (if any).

4. Interest Shortfall

Interest Shortfall Payment Amount:	In respect of an Interest Shortfall with respect to a Reference Obligation, the relevant Interest Shortfall Amount; provided that if the relevant Interest Shortfall Amount exceeds the Interest Shortfall Cap Amount, the Interest Shortfall Payment Amount in respect of such Interest Shortfall shall be the Interest Shortfall Cap Amount.
Interest Shortfall Cap Amount:	As set out in the Interest Shortfall Cap Annex.
Actual Interest Amount:	With respect to any Reference Obligation Payment Date in respect of a Reference Obligation, payment by or on behalf of the Issuer of an amount in respect of interest due under such 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 such Reference Obligation in respect of such Reference Obligation.
Expected Interest Amount:	With respect to any Reference Obligation Payment Date in respect of a Reference Obligation, the amount of current interest that would accrue during the related Reference Obligation Calculation Period calculated using the Reference Obligation Coupon on a principal balance of such 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

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Underlying Instruments) that are attributable to such Reference Obligation minus (b) the Aggregate Implied Writedown Amount (if any) for such Reference Obligation and that will be payable on the related Reference Obligation Payment Date assuming for this purpose that sufficient funds are available therefor in accordance with the Underlying Instruments. Except as provided in (a) in the previous sentence, the Expected Interest Amount in respect of a Reference Obligation shall be determined without regard to (i) unpaid amounts in respect of accrued interest on prior Reference Obligation Payment Dates or (ii) any prepayment penalties or yield maintenance provisions.

The Expected Interest Amount shall be determined without regard to the effect of any provisions (however described) of the Underlying Instruments that otherwise permit the limitation of due payments to distributions of funds from proceeds of the Underlying Assets, or that provide for the capitalization or deferral of interest on such Reference Obligation, or that provide for the extinguishing or reduction of such payments or distributions (but, for the avoidance of doubt, taking account of any Writedown within paragraph (i) of the definition of "Writedown" occurring in accordance with the relevant Underlying Instruments).

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

For the avoidance of doubt, the occurrence of an event within (a) or (b) shall be determined taking into account any payment made under the relevant Reference Policy, if applicable.

Interest Shortfall Amount: With respect to any Reference Obligation Payment Date in respect of a Reference Obligation, an amount equal to the greater of:

(a) zero; and

(b) the amount equal to the product of:

(i) (A) the Expected Interest Amount;

minus

(B) the Actual Interest Amount; and

(ii) the Applicable Percentage;

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provided that, with respect to the first Reference Obligation Payment Date in respect of such Reference Obligation, the Interest Shortfall Amount shall be the amount determined in accordance with (a) and (b) above multiplied by a fraction equal to:

(x) the number of days in the first Fixed Rate Payer Calculation Period with respect to such Reference Obligation; over

(y) the number of days in the first Reference Obligation Calculation Period with respect to such Reference Obligation.

Interest Shortfall Reimbursement:	With respect to any Reference Obligation Payment Date for a Reference Obligation, the payment by or on behalf of the Issuer of an Actual Interest Amount in respect of such Reference Obligation that is greater than the Expected Interest Amount.
Interest Shortfall Reimbursement Amount:	With respect to any Reference Obligation Payment Date in respect of a Reference Obligation, the product of (a) the amount of any Interest Shortfall Reimbursement on such day and (b) the Applicable Percentage.
Interest Shortfall Reimbursement Payment Amount:	The amount determined pursuant to the Interest Shortfall Cap Annex.

5. Additional Provisions:

(a) Calculation Agent and Buyer and Seller Determinations

The Calculation Agent shall be responsible for determining and calculating, for each Reference Obligation, (i) the Fixed Amount payable on each Fixed Rate Payer Payment Date; (ii) the occurrence of a Floating Amount Event and the related Floating Amount and (iii) the occurrence of an Additional Fixed Payment Event and the related Additional Fixed Amount; provided that notwithstanding the above, each of Buyer and Seller shall be entitled to determine and calculate the above amounts to the extent that Buyer or Seller, as applicable, has the right to deliver a notice to the other party demanding payment of such amount. The Calculation Agent or Buyer or Seller, as applicable, shall make such determinations and calculations based solely on composite data compiled and published by the Index Publisher from applicable Servicer Reports ("Composite Data") or, if such Composite Data is not available, from applicable Servicer Reports, to the extent such Servicer Reports are reasonably available to the Calculation Agent or such party. The Calculation Agent, Buyer or Seller may rely on calculations or determinations published by the Index Publisher in making such determinations and calculations. The Calculation Agent or Buyer or Seller, as applicable, shall, as soon as practicable after making any of the determinations or calculations specified in (i) and (ii) above, notify the parties or the other party, as applicable, of such determinations and calculations.

(b) Adjustment of Calculation Agent Determinations

To the extent that a Servicer furnishes any Servicer Reports correcting information contained in previously issued Servicer Reports or the Index Publisher corrects any previously published Composite Data (or other relevant calculation or determination published by the Index Publisher), and such corrections impact calculations or determinations pursuant to a Component

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Transaction, the calculations or determinations relevant to such Component Transaction shall be adjusted retroactively by the Calculation Agent to reflect the corrected information (provided that, for the avoidance of doubt, no amounts in respect of interest shall be payable by either party and provided that the Calculation Agent in performing the calculations or determinations pursuant to this paragraph will assume that no interest has accrued on any adjusted amount), and the Calculation Agent shall promptly notify both parties of any corrected payments required by either party. Any required corrected payments shall be made on the second Fixed Rate Payer Payment Date following the day on which such notification by the Calculation Agent is effective.

(c) Initial Payment Date Following Annex Date

Notwithstanding anything to the contrary herein, with respect to any Component Transactions, any amount that would otherwise be payable hereunder on the first Fixed Rate Payer Payment Date following the Annex Date will be deemed to be payable instead on the second Fixed Rate Payer Payment Date following the Annex Date (together with any other amounts payable on such date).

6. Additional Definitions and Amendments to the Credit Derivatives Definitions

(a) References in Section 9.1(a) of the Credit Derivatives Definitions as well as Section 3(a)(iv) of the form of Novation Agreement set forth in Exhibit E to the Credit Derivatives Definitions to the Reference Entity shall be deemed to be references to each Reference Entity and the Insurer in respect of the relevant Reference Policy, if applicable.

(b) For the purposes of each Component Transaction, the following terms have the meanings given below:

"Actual Principal Amount" means, with respect to a Reference Obligation and the Final Amortization Date or the Legal Final Maturity Date, an amount paid on such day by or on behalf of the relevant Issuer in respect of principal (excluding any capitalized interest) to the holder(s) of such Reference Obligation in respect of such Reference Obligation.

"Aggregate Implied Writedown Amount" means, with respect to a Reference Obligation, the greater of (i) zero and (ii) the aggregate of all Implied Writedown Amounts minus the aggregate of all Implied Writedown Reimbursement Amounts.

"Current Period Implied Writedown Amount" means, with respect to a Reference Obligation in respect of a Reference Obligation Calculation Period, an amount determined as of the last day of such Reference Obligation Calculation Period equal to the greater of:

(i) zero; and

(ii) the product of:

(A) the Implied Writedown Percentage; and

(B) the greater of:

(1) zero; and

(2) the lesser of (x) the Pari Passu Amount and (y) the Pari Passu Amount plus the Senior Amount minus the aggregate outstanding asset pool balance backing the payment obligations on such Reference Obligation (all such outstanding asset pool balances as obtained by the Calculation Agent from the most recent Composite Data or from the most recent

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Servicer Report for such Reference Obligation available as of such day), calculated based on the face amount of the assets then in such pool, whether or not any such asset is performing.

"Effective Maturity Date" means, with respect to a Reference Obligation, the earlier of (a) the Component Transaction Scheduled Termination Date and (b) the Final Amortization Date.

"Expected Principal Amount" means, with respect to a Reference Obligation and the Final Amortization Date or the Legal Final Maturity Date, an amount equal to (i) the Outstanding Principal Amount of such Reference Obligation payable on such day (excluding capitalized interest) assuming for this purpose that sufficient funds are available for such payment, where such amount shall be determined in accordance with the Underlying Instruments, minus (ii) the sum of (A) the Aggregate Implied Writedown Amount (if any) and (B) the net aggregate principal deficiency balance or realized loss amounts (however described in the Underlying Instruments) that are attributable to such Reference Obligation. The Expected Principal Amount shall be determined without regard to the effect of any provisions (however described) of the Underlying Instruments that permit the limitation of due payments or distributions of funds in accordance with the terms of such Reference Obligation or that provide for the extinguishing or reduction of such payments or distributions.

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

"Final Amortization Date" means, with respect to a Reference Obligation, the first to occur of (i) the date on which the Reference Obligation Notional Amount is reduced to zero and (ii) the date on which the assets backing 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.

"Implied Writedown Amount" means, with respect to a Reference Obligation, (i) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) of the definition of "Writedown" to occur in respect of the Reference Obligation, on any Reference Obligation Payment Date, an amount determined by the Calculation Agent equal to the excess, if any, of the Current Period Implied Writedown Amount over the Previous Period Implied Writedown Amount, in each case in respect of the Reference Obligation Calculation Period to which such Reference Obligation Payment Date relates, and (ii) in any other case, zero.

"Implied Writedown Percentage" means, with respect to a Reference Obligation, (i) the Outstanding Principal Amount divided by (ii) the Pari Passu Amount.

"Implied Writedown Reimbursement Amount" means, with respect to a Reference Obligation, (i) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) of the definition of "Writedown" to occur in respect of the Reference Obligation, on any Reference Obligation Payment Date, an amount determined by the Calculation Agent equal to the excess, if any, of the Previous Period Implied Writedown Amount for the Reference Obligation over the Current Period Implied Writedown Amount for the Reference Obligation, in each case in respect of the Reference Obligation Calculation Period to

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which such Reference Obligation Payment Date relates, and (ii) in any other case, zero; provided that the aggregate of all Implied Writedown Reimbursement Amounts for a Reference Obligation at any time shall not exceed the product of the Pari Passu Amount for the Reference Obligation and the Implied Writedown Percentage for the Reference Obligation.

"Insurer" means, with respect to a Reference Obligation, the insurer of such Reference Obligation specified in the Relevant Annex.

"Issuer" means, with respect to a Reference Obligation, the issuer of such Reference Obligation specified in the Relevant Annex.

"Legal Final Maturity Date" means, with respect to a Reference Obligation, the date set out in the Relevant Annex for such Reference Obligation (subject, for the avoidance of doubt, to any business day convention applicable to the legal final maturity date of such Reference Obligation), provided that if the legal final maturity date of such Reference Obligation is amended, the Legal Final Maturity Date shall be such date as amended.

"Original Principal Amount" means, with respect to a Reference Obligation, the amount specified as such in the Relevant Annex.

"Outstanding Principal Amount" means, with respect to a Reference Obligation as of any date of determination, the outstanding principal balance of such Reference Obligation as of such date, which shall take into account:

(i) all payments of principal;

(ii) all writedowns or applied losses (however described in the Underlying Instruments) resulting in a reduction in the outstanding principal balance of such Reference Obligation (other than as a result of a scheduled or unscheduled payment of principal);

(iii) forgiveness of any amount by the holders of such Reference Obligation pursuant to an amendment to the Underlying Instruments resulting in a reduction in the outstanding principal balance of such Reference Obligation;

(iv) any payments reducing the amount of any reductions described in (ii) and (iii) of this definition; and

(v) any increase in the outstanding principal balance of such Reference Obligation that reflects a reversal of any prior reductions described in (ii) and (iii) of this definition).

"Pari Passu Amount" means, with respect to a Reference Obligation 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 relevant Reference Entity backed by the relevant Underlying Assets and ranking *pari passu* in priority with such Reference Obligation.

"Previous Period Implied Writedown Amount" means, with respect to a Reference Obligation in respect of a Reference Obligation Calculation Period, the Current Period Implied Writedown Amount as determined in relation to the last day of the immediately preceding Reference Obligation Calculation Period for such Reference Obligation.

"Principal Payment" means, with respect to a Reference Obligation and any Reference Obligation Payment Date, the occurrence of a payment of an amount to the holders of such Reference Obligation in respect of principal (scheduled or unscheduled) in respect of such Reference Obligation other than a payment in respect of principal representing capitalized interest,

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excluding, for the avoidance of doubt, any relevant Writedown Reimbursement or Interest Shortfall Reimbursement.

"Principal Payment Amount" means, with respect to any Reference Obligation Payment Date for a Reference Obligation, an amount equal to the product of (i) the amount of any Principal Payment on such date and (ii) the Applicable Percentage.

"Principal Shortfall Amount" means, with respect to a Reference Obligation, in respect of a Failure to Pay Principal, an amount equal to the greater of:

(i) zero; and

(ii) the amount equal to the product of:

(A) the Expected Principal Amount minus the relevant Actual Principal Amount; and

(B) the Applicable Percentage;

If the Principal Shortfall Amount in respect of a Reference Obligation would be greater than the Reference Obligation Notional Amount immediately prior to the occurrence of such Failure to Pay Principal, then such Principal Shortfall Amount shall be deemed to be equal to the Reference Obligation Notional Amount at such time.

"Principal Shortfall Reimbursement" means, with respect to a Reference Obligation on any day, the payment by or on behalf of the relevant Issuer of an amount in respect of such Reference Obligation in or toward the satisfaction of any deferral of or failure to pay principal arising from one or more prior occurrences of a Failure to Pay Principal.

"Principal Shortfall Reimbursement Amount" means, with respect to a Reference Obligation on any day, the product of (i) the amount of any relevant Principal Shortfall Reimbursement on such day and (ii) the relevant Applicable Percentage.

"Principal Shortfall Reimbursement Payment Amount" means, with respect to a Reference Obligation and an Additional Fixed Amount Payment Date, the sum of the Principal Shortfall Reimbursement Amounts in respect of all Principal Shortfall Reimbursements (if any) made during the Reference Obligation Calculation Period relating to such Additional Fixed Amount Payment Date (or, in the case of an Additional Fixed Amount Payment Date after the final Fixed Rate Payer Payment Date, made on the related Reference Obligation Payment Date), provided that the aggregate of all such Principal Shortfall Reimbursement Payment Amounts at any time shall not exceed the aggregate of all Floating Amounts (determined without regard to the Effective Date) in respect of occurrences of Failure to Pay Principal prior to such Additional Fixed Amount Payment Date.

"Reference Obligation Calculation Period" means, with respect to a Reference Obligation and each Reference Obligation Payment Date, a period corresponding to the interest accrual period relating to such Reference Obligation Payment Date pursuant to the relevant Underlying Instruments.

"Reference Obligation Coupon" means, with respect to a Reference Obligation, the periodic interest rate applied in relation to each related Reference Obligation Calculation Period on the related Reference Obligation Payment Date, as determined in accordance with the terms of the relevant Underlying Instruments as at the Annex Date, without regard to any subsequent amendment.

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"Reference Obligation Payment Date" means, with respect to a Reference Obligation, (i) each scheduled distribution date for such Reference Obligation occurring on or after the Annex Date and on or prior to the Component Transaction Scheduled Termination Date, determined in accordance with the Underlying Instruments and (ii) any day after the Effective Maturity Date on which a payment is made in respect of such Reference Obligation.

"Reference Policy" means, with respect to a Reference Obligation, the reference policy for such Reference Obligation specified in the Relevant Annex.

"Senior Amount" means, with respect to a Reference Obligation as of any day, the aggregate outstanding principal balance of all obligations of the Reference Entity backed by the Underlying Assets and ranking senior in priority to such Reference Obligation.

"Servicer" means, with respect to a Reference Obligation, any trustee, servicer, sub-servicer, master servicer, fiscal agent, paying agent or other similar entity responsible for calculating payment amounts or providing reports pursuant to the Underlying Instruments.

"Servicer Reports" means, with respect to a Reference Obligation, periodic statements or reports regarding the Reference Obligation provided by the Servicer to holders of the Reference Obligation.

"Underlying Assets" means, with respect to a Reference Obligation, the assets backing the Reference Obligation for the benefit of the holders of such Reference Obligation and which are expected to generate the cashflows required for the servicing and repayment (in whole or in part) of such Reference Obligation, or the assets to which a holder of such Reference Obligation is economically exposed where such exposure is created synthetically.

"Underlying Instruments" means, with respect to a Reference Obligation, the indenture, trust agreement, pooling and servicing agreement or other relevant agreement(s) setting forth the terms of the Reference Obligation.

"Writedown" means, with respect to a Reference Obligation, the occurrence at any time on or after the Annex Date of:

(i) (A) a writedown or applied loss (however described in the Underlying Instruments) resulting in a reduction in the Outstanding Principal Amount of such Reference Obligation (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 such Reference Obligation resulting in a reduction or subordination of the current interest payable on such Reference Obligation;

(ii) the forgiveness of any amount of principal by the holders of such Reference Obligation pursuant to an amendment to the Underlying Instruments resulting in a reduction in the Outstanding Principal Amount; or

(iii) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) above to occur in respect of such Reference Obligation, an Implied Writedown Amount being determined in respect of such Reference Obligation by the Calculation Agent.

"Writedown Amount" means, with respect to a Reference Obligation on any day, the product of (i) the amount of any Writedown with respect to such Reference Obligation on such day and (ii) the Applicable Percentage.

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"Writedown Reimbursement" means, with respect to a Reference Obligation on any day, the occurrence of:

(i) a payment by or on behalf of the Issuer of an amount in respect of such Reference Obligation in reduction of any prior Writedowns;

(ii) (A) an increase by or on behalf of the Issuer of the Outstanding Principal Amount of such Reference Obligation to reflect the reversal of any prior Writedowns; or

(B) a decrease in the principal deficiency balance or realized loss amounts (however described in the Underlying Instruments) attributable to such Reference Obligation; or

(iii) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (ii) above to occur in respect of such Reference Obligation, an Implied Writedown Reimbursement Amount being determined in respect of such Reference Obligation by the Calculation Agent.

"Writedown Reimbursement Amount" means, with respect to a Reference Obligation on any day, an amount equal to the product of:

(i) the sum of all Writedown Reimbursements with respect to such Reference Obligation on that day; and

(ii) the Applicable Percentage;

"Writedown Reimbursement Payment Amount" means, with respect to a Reference Obligation and an Additional Fixed Amount Payment Date, the sum of the Writedown Reimbursement Amounts in respect of all Writedown Reimbursements (if any) during the Reference Obligation Calculation Period relating to such Additional Fixed Amount Payment Date (or, in the case of an Additional Fixed Amount Payment Date after the final Fixed Rate Payer Payment Date, on the related Reference Obligation Payment Date or date of determination of an Implied Writedown Reimbursement Amount, as the case may be), provided that the aggregate of all such Writedown Reimbursement Payment Amounts at any time shall not exceed the aggregate of all Floating Amounts with respect to such Reference Obligation (determined without regard to the Effective Date) in respect of Writedowns occurring prior to such Additional Fixed Amount Payment Date.

7. Transfer and Termination of Component Transactions

Without prejudice to Section 7 of the Master Agreement specified in the relevant Confirmation, the Component Transactions (or any part thereof) to which these ABX Standard Terms relate may only be transferred (by way of assignment, novation or otherwise) or terminated prior to the Component Transaction Scheduled Termination Date thereof (other than in accordance with the terms hereof) together with an equal part (by Initial Face Amount) of each other Component Transaction forming part of the Master Transaction of which it forms a part.

8. Disclaimers

(a) ABX™ is a service mark of the Index Sponsor and has been licensed for use in connection with the Master Transaction.

(b) The Index referenced herein is the property of the Index Sponsor and has been licensed for use in connection with the transaction hereunder. Each party acknowledges and agrees that the transaction hereunder is not sponsored, endorsed, or promoted by the Index Sponsor or any members of the Index Sponsor (the Index Sponsor, together with its members, the "Index

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Parties"). The Index Parties make no representation whatsoever, whether express or implied, and hereby expressly disclaim all warranties (including, without limitation, those of merchantability or fitness for a particular purpose or use), with respect to the Index or any data included therein or relating thereto, and in particular disclaim any warranty either as to the quality, accuracy and/or completeness of the Index or any data included therein, the results obtained from the use of the Index and/or the composition of the Index at any particular time on any particular date or otherwise and/or the creditworthiness of any entity, or the likelihood of the occurrence of a Floating Amount Event with respect to an obligation, in the Index at any particular time on any particular date or otherwise. The Index Parties shall not be liable (whether in negligence or otherwise) to the parties or any other person for any error in the Index, and the Index Parties are under no obligation to advise the parties or any person of any error therein. The Index Parties make no representation whatsoever, whether express or implied, as to the advisability of entering into the transaction hereunder, the ability of the Index to track relevant markets' performances, or otherwise relating to the Index or any transaction or product with respect thereto, or of assuming any risks in connection therewith. The Index Parties have no obligation to take the needs of any party into consideration in determining, composing or calculating the Index. Neither party to this transaction, nor any Index Party, shall have any liability to any party for any act or failure to act by the Index Parties in connection with the determination, adjustment, calculation or maintenance of the Index. Although the Calculation Agent will obtain information concerning the Index from sources it believes reliable, it will not independently verify this information. Accordingly, no representation, warranty or undertaking (express or implied) is made, and no responsibility is accepted by either party, its Affiliates or the Calculation Agent, as to the accuracy, completeness or timeliness of information concerning the Index. Each party acknowledges that the other party or one of its affiliates may be, or may be affiliated with, an Index Party and, as such, may be able to affect or influence the determination, adjustment or maintenance of the Index. For purposes of Sections 9.1(b)(iii) and (iv) of the Credit Derivatives Definitions, references to "each party" therein shall be deemed to include each Index Party.

(c) Without limitation of Section 9.1(b)(iv) of the Credit Derivatives Definitions (as modified above), each party acknowledges that the other party or its Affiliates or the Calculation Agent may act from time to time as an originator, sponsor, servicer, administrator, trustee, underwriter or market maker, or otherwise act in a capacity as a result of which such party or its Affiliates may be in possession of information in relation to one or more Reference Obligations or Reference Entities contained in the Index which may be material in the context of one or more Component Transactions and that may or may not be publicly available or known to the other party. No furnishing by a party or its Affiliates or the Calculation Agent of any notice, report, or other information with respect to any Reference Obligation or any Reference Entity ("Reference Obligation Information") shall prejudice the foregoing provision or Section 9.1(b)(iv) of the Credit Derivatives Definitions, constitute a representation or warranty as to the correctness or completeness of such Reference Obligation Information, give rise to any duty to supplement, update or revise the Reference Obligation Information so provided, or otherwise result in such party or the Calculation Agent having any responsibility for the content of such Reference Obligation Information.

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Interest Shortfall Cap Annex

Interest Shortfall Cap Amount:	The Interest Shortfall Cap Amount in respect of an Interest Shortfall for a Reference Obligation shall be the Fixed Amount calculated in respect of the Fixed Rate Payer Payment Date immediately following the Reference Obligation Payment Date on which the relevant Interest Shortfall occurred.
Interest Shortfall Reimbursement Payment Amount:	The first Additional Fixed Amount Payment Date for a Reference Obligation, zero, and with respect to any subsequent Additional Fixed Amount Payment Date for such Reference Obligation and calculated as of the Reference Obligation Payment Date immediately preceding such Additional Fixed Amount Payment Date, as specified by the Calculation Agent in its notice to the parties or by Seller in its notice to Buyer of the existence of an Interest Shortfall Reimbursement for such Reference Obligation, an amount equal to the greater of: (a) zero; and (b) the amount equal to: (i) the product of: (A) the Cumulative Interest Shortfall Payment Amount as of the Additional Fixed Amount Payment Date immediately preceding such Reference Obligation Payment Date; and (B) the relevant Cumulative Interest Shortfall Payment Compounding Factor for the Fixed Rate Payer Calculation Period immediately preceding such Additional Fixed Amount Payment Date (or 1.0 in respect of any Additional Fixed Amount Payment Date occurring after the final Fixed Rate Payer Payment Date for such Reference Obligation); minus (ii) the Cumulative Interest Shortfall Amount as of such Reference Obligation Payment Date; provided that if the Interest Shortfall Reimbursement Payment Amount on an Additional Fixed Amount Payment Date for such Reference Obligation would exceed the Interest Shortfall Reimbursement Amount in respect of the

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related Reference Obligation Payment Date, then such Interest Shortfall Reimbursement Payment Amount shall be deemed to be equal to such Interest Shortfall Reimbursement Amount.

Cumulative Interest Shortfall Amount: With respect to any Reference Obligation Payment Date for a Reference Obligation, an amount equal to the greater of:

(a) zero; and

(b) an amount equal to:

(i) the Cumulative Interest Shortfall Amount as of the Reference Obligation Payment Date for such Reference Obligation immediately preceding such Reference Obligation Payment Date or, in the case of the first Reference Obligation Payment Date, zero; plus

(ii) the Interest Shortfall Amount (if any) in respect of such Reference Obligation Payment Date; plus

(iii) an amount determined by the Calculation Agent as the amount of interest that would accrue on the Cumulative Interest Shortfall Amount immediately preceding such Reference Obligation Payment Date during the related Reference Obligation Calculation Period pursuant to the Underlying Instruments or, in the case of the first Reference Obligation Payment Date, zero; minus

(iv) the Interest Shortfall Reimbursement Amount (if any) in respect of such Reference Obligation Payment Date for such Reference Obligation.

Cumulative Interest Shortfall Payment Amount: With respect to any Fixed Rate Payer Payment Date and any Additional Fixed Amount Payment Date falling on such date, an amount equal to the greater of:

(a) zero; and

(b) the amount equal to:

(i) the sum of:

(A) the Interest Shortfall Payment Amount for the Reference Obligation Payment Date corresponding to such Fixed Rate

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Payer Payment Date; and

(B) the product of.

(1) the Cumulative Interest Shortfall Payment Amount as of the Fixed Rate Payer Payment Date immediately preceding such Fixed Rate Payer Payment Date (or zero in the case of the first Fixed Rate Payer Payment Date); and

(2) the relevant Cumulative Interest Shortfall Payment Compounding Factor;

minus

(ii) any Interest Shortfall Reimbursement Payment Amount paid on such Fixed Rate Payer Payment Date.

With respect to any Additional Fixed Amount Payment Date falling after the final Fixed Rate Payer Payment Date, the Cumulative Interest Shortfall Payment Amount shall be equal to:

(x) the Cumulative Interest Shortfall Payment Amount as of the Additional Fixed Amount Payment Date immediately preceding such Additional Fixed Amount Payment Date (or as of the final Fixed Rate Payer Payment Date in the case of the first Additional Fixed Amount Payment Date occurring after the final Fixed Rate Payer Payment Date); minus

(y) any Interest Shortfall Reimbursement Payment Amount paid on such Additional Fixed Amount Payment Date.

Cumulative Interest Shortfall Payment Compounding Factor: With respect to any Fixed Rate Payer Calculation Period in respect of a Reference Obligation, an amount equal to the sum of:

(a) 1.0;

plus

(b) the product of:

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(i) the sum of (A) the Relevant Rate in respect of such Reference Obligation plus (B) the relevant Fixed Rate; and

(ii) the actual number of days in such Fixed Rate Payer Calculation Period divided by 360;

provided, however, that the Cumulative Interest Shortfall Payment Compounding Factor shall be deemed to be 1.0 during the period from but excluding the Effective Maturity Date to and including the Termination Date.

Relevant Rate: With respect to a Fixed Rate Payer Calculation Period in respect of a Reference Obligation, the relevant Floating Rate, expressed as a decimal number with seven decimal places, that would be determined if:

(a) the 2000 ISDA Definitions (and not the 2003 ISDA Credit Derivatives Definitions) applied to this paragraph;

(b) the Fixed Rate Payer Calculation Period were a "Calculation Period" for purposes of such determination; and

(c) the following terms applied:

(i) the Floating Rate Option were the Rate Source;

(ii) the Designated Maturity were the period that corresponds to the usual length of a Fixed Rate Payer Calculation Period; and

(iii) the Reset Date were the first day of the Calculation Period;

provided, however, that the Relevant Rate shall be deemed to be zero during the period from but excluding the relevant Effective Maturity Date to and including the relevant Termination Date.

Rate Source: USD-LIBOR-BBA

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SCHEDULE I
FORM OF CONFIRMATION FOR CMBS SECURITIES

Deutsche Bank AG

Date: [ ]

To: Gemstone CDO VII Ltd.

Fax No:[ ]

From: Deutsche Bank AG, acting through its New York Branch

RE: Credit Derivative Transaction on Mortgage-Backed Security with Pay-As-You-Go or Physical Settlement (Form I) (Dealer Form) (CMBS)

Dear Sir/Madam

The purpose of this communication (the "Confirmation") is to confirm the terms and conditions of the Credit Derivative Transaction relating to a mortgage-backed security reference obligation entered into between you Gemstone CDO VII Ltd. ("Party B") and us Deutsche Bank AG, acting through its New York Branch ("Party A") on the Trade Date specified below (the "Transaction"). This Confirmation constitutes a "Confirmation" as referred to in the ISDA Master Agreement specified below.

The definitions and provisions contained in the 2003 ISDA Credit Derivatives Definitions (the "Credit Derivatives Definitions"), as published by the International Swaps and Derivatives Association, Inc. ("ISDA") and the ISDA Standard Terms Supplement for use with Credit Derivatives Transaction on Mortgage-Backed Security with Pay-As-You-Go or Physical Settlement, as published by ISDA on November 10, 2006 (the "CDS on MBS Terms"), and, if (i) the Additional Provisions for Optional Early Termination have been published by ISDA at the Trade Date and (ii) Optional Early Termination is specified as being applicable, the Additional Provisions for Optional Early Termination most recently published by ISDA, are incorporated into this Confirmation. In the event of any inconsistency between the Credit Derivatives Definitions or the CDS on MBS Terms and this Confirmation, this Confirmation will govern. In the event of any inconsistency between the CDS on MBS Terms and the Credit Derivatives Definitions, the CDS on MBS Terms will govern.

This Confirmation supplements, forms a part of, and is subject to, the ISDA Master Agreement, dated as of [-], 2007 as amended and supplemented from time to time (the "Agreement"), between you and us. All provisions contained in the Agreement govern this Confirmation except as expressly modified below.

The terms of the Transaction to which this Confirmation relates are as follows:

Trade Date:	[ ]
Effective Date:	[ ]

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Floating Rate Payer:	[ ] (the "Seller").
Fixed Rate Payer:	[ ] (the "Buyer").
Calculation Agent:	Party A, unless an Event of Default has occurred and is continuing with respect to Party A, in which case the Calculation Agent shall be a leading, independent dealer in derivatives selected by agreement between the parties within one Business Day of such Event of Default (the "Substitute Calculation Agent"), whose fees and expenses shall be met by Party A, whilst such Event of Default is continuing. If the parties are unable to agree on a Substitute Calculation Agent, each of the parties shall elect an independent dealer in derivatives and such two dealers shall agree on a third party, who shall be deemed to be the Substitute Calculation Agent. Party A shall be appointed to replace the Substitute Calculation Agent within one Business Day of the date on which no Event of Default is continuing in respect of Party A. All determinations by the Calculation Agent shall be made in good faith and in a commercially reasonable manner.
Calculation Agent City:	New York
Business Day:	New York and London
Reference Entity:	[ ]
Reference Obligation:	The obligation identified as follows: [Insurer: [ ]] CUSIP/ISIN: [ ] [Bloomberg ID: [ ]] Legal final maturity date: [ ] Original Principal Amount: [ ] Initial Factor: [ ] Issuer: The Reference Entity]
Reference Policy:	Not Applicable
Reference Price:	[●]%
Initial Face Amount:	[ ]
Initial Payment:	[Not Applicable] [On [the Effective Date], [Buyer]/[Seller] will pay [USD][ ] to [Seller]/[Buyer].]
Fixed Rate:	[ ]% per annum

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Fixed Rate Payer Payment Dates:	CMBS Convention
Fixed Amount:	Fixed Amount definition for underlying with payment delay
Additional Credit Event:	No Additional Credit Event
Interest Shortfall Cap:	Applicable
WAC Cap Interest Provision:	Applicable
Step-up provisions:	Not Applicable
If Interest Shortfall Cap is applicable, then specify:	
Interest Shortfall Cap Basis:	Fixed Cap
Interest Shortfall Compounding:	Inapplicable
Rate Source:	USD-LIBOR-BBA
Optional Early Termination:	Not Applicable
Additional Terms:	The definition of "Fixed Amount" in the CDS on MBS Terms shall be deleted and replaced in its entirety with the following: "With respect to any Fixed Rate Payer Payment Date, an amount equal to the product of: (a) the Fixed Rate; (b) the Reference Obligation Notional Amount (as calculated without taking into consideration any adjustment in the Reference Obligation Notional Amount due to an Implied Writedown Amount) outstanding on the last day of the Reference Obligation Calculation Period related to such Fixed Rate Payer Payment Date, as adjusted for any increases or decreases of the Reference Obligation Notional Amount on the Reference Obligation Payment Date immediately preceding the related Reference Obligation Payment Date; and (c) the actual number of days in the related Fixed Rate Payer Calculation Period divided by 360." Implied Writedown Amounts are not applicable to this Transaction. Without limiting the foregoing, for the purpose of any calculations required under this Confirmation (including the CDS on MBS

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Terms), the following terms shall all be deemed to be equal to zero: "Aggregate Implied Writedown Amount", "Current Period Implied Writedown Amount", "Implied Writedown Amount", "Implied Writedown Percentage", "Implied Writedown Reimbursement Amount", or "Previous Period Implied Writedown Amount".

The definition of "Writedown" in the CDS on MBS Terms shall be deleted and replaced in its entirety with the following:

"'Writedown' means the occurrence at any time on or after the Effective Date of:

(i) (A) a writedown or applied loss (however described in the Underlying Instruments) resulting in a reduction in the Outstanding Principal Amount (other than as a result of a scheduled or unscheduled payment of principal); or (B) the attribution of a principal deficiency or realized loss (however described in the Underlying Instruments) to the Reference Obligation resulting in a reduction or subordination of the current interest payable on the Reference Obligation; or

(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, provided that (A) Party A shall not give notice of a Floating Amount Event or Credit Event with respect to the portion of a Writedown resulting from forgiveness referred to in this subclause (ii) that was caused by the vote of Party A if Party A was the holder of 100% of such Reference Obligation, and (B) if, notwithstanding the preceding sub-clause (A), Party A gives notice of a Floating Amount Event or Credit Event with respect to the portion of a Writedown resulting from forgiveness referred to in this subclause (ii) that was caused by the vote of Party A if Party A was the holder of 100% of such Reference Obligation, then, as soon as practicable after Party A and Party B become aware of such occurrence, Party A and Party B shall refund to each other all payments, and reverse all other calculations and/or determinations, that occurred in connection with or resulting from Party A giving notice of such Floating Amount Event or Credit Event."

For the avoidance of doubt, no payment in connection with clause (iii) of the definition of "Writedown" (as defined in the CDS on MBS

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Terms and not as amended herein) shall be due or payable hereunder and the CDS on MBS Terms shall be read accordingly.

Office, Notice and Account Details:

The Office of Party A for this Transaction is: New York

The Office of Party B for this Transaction is: George Town, Grand Cayman, Cayman Islands

Telephone, Telex and/or Facsimile Numbers and Contact Details for Notices:

Party A:	Attention: New York Derivatives Documentation
Telephone:	(212) 250-9425
Fax:	(212) 797-0779
Email:	NYderivative.documentation@db.com
Party B:	[ ]
Account Details:	
Account Details of Buyer:	[ ]
Account Details of Seller:	[ ]

Please confirm your agreement to be bound by the terms of the foregoing by executing a copy of this Confirmation and returning it to us by facsimile.

Yours sincerely,

DEUTSCHE BANK AG, ACTING THROUGH ITS NEW YORK BRANCH

By:_____

Name:
Title:

By:_____

Name:
Title:

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Confirmed as of the date first above written:

GEMSTONE CDO VII LTD.
By HBK Investments, L.P., New York Branch, as its Investment Manager

By:_____

Name:
Title:

By:_____

Name:
Title:

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ISDA STANDARD TERMS SUPPLEMENT FOR USE WITH CREDIT DERIVATIVE TRANSACTIONS ON MORTGAGE-BACKED SECURITY WITH PAY-AS-YOU-GO OR PHYSICAL SETTLEMENT[1]

(published on November 10, 2006)

This ISDA Standard Terms Supplement for use with Credit Derivative Transactions on Mortgage-Backed Security with Pay-As-You-Go or Physical Settlement (the "CDS on MBS Terms") hereby incorporates by reference the definitions and provisions contained in the 2003 ISDA Credit Derivatives Definitions as published by the International Swaps and Derivatives Association, Inc. ("ISDA") (the "Credit Derivatives Definitions"). In the event of any inconsistency between the Credit Derivatives Definitions and these CDS on MBS Terms, these CDS on MBS Terms will govern.[2]

References to the "Reference Obligation" in these CDS on MBS Terms or in the relevant Confirmation shall be to the terms of the Reference Obligation (as defined below) set out in the Underlying Instruments (as defined below) as amended from time to time unless otherwise specified below.

1. General Terms:

Trade Date:	As shown in the relevant Confirmation.
Effective Date:	As shown in the relevant Confirmation.
Scheduled Termination Date:	Subject to paragraph 6, the Legal Final Maturity Date of the Reference Obligation, subject to adjustment in accordance with the Following Business Day Convention.
Termination Date:	The last to occur of: (a) the fifth Business Day following the Effective Maturity Date; (b) the last Floating Rate Payer Payment Date; (c) the last Delivery Date; and (d) the last Additional Fixed Amount Payment Date.

THE FOOTNOTES TO THIS CDS ON MBS STANDARD TERMS SUPPLEMENT ARE PROVIDED FOR CLARIFICATION ONLY AND DO NOT CONSTITUTE ADVICE AS TO THE STRUCTURING OR DOCUMENTATION OF A CREDIT DERIVATIVE TRANSACTION.

ISDA has not undertaken to review all applicable laws and regulations of any jurisdiction in which the Credit Derivatives Definitions or these CDS on MBS Terms may be used. Therefore, parties are advised to consider the application of any relevant jurisdiction's regulatory, tax, accounting, exchange or other requirements that may exist in connection with the entering into and documenting of a privately negotiated credit derivative transaction.

1 The definitions and provisions in this ISDA Standard Terms Supplement for use with Credit Derivatives Transactions on Mortgage-Backed Security with Pay-As-You-Go or Physical Settlement may be incorporated into a Confirmation or other document (including in electronic form) (a "Confirmation") by wording in the Confirmation indicating that, or the extent to which, the Confirmation is subject to this ISDA Standard Terms Supplement for use with Credit Derivatives Transactions on Mortgage-Backed Security with Pay-As-You-Go or Physical Settlement. All definitions and provisions so incorporated in a Confirmation will be applicable to that Confirmation unless otherwise provided in that Confirmation.

2 Parties who wish to novate a trade documented by way of a Confirmation incorporating these CDS on MBS Terms should consider using the Form of Novation Confirmation set out in the Schedule to this ISDA Standard Terms Supplement.

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Floating Rate Payer:	As shown in the relevant Confirmation (the "Seller").
Fixed Rate Payer:	As shown in the relevant Confirmation (the "Buyer").
Calculation Agent:	As shown in the relevant Confirmation.
Calculation Agent City:	As shown in the relevant Confirmation.
Business Day:	As shown in the relevant Confirmation.
Business Day Convention:	Following (which, with the exception of the Effective Date, the Final Amortization Date, each Reference Obligation Payment Date and the period end date of each Reference Obligation Calculation Period, shall apply to any date referred to in these CDS on MBS Terms or in the Relevant Confirmation that falls on a day that is not a Business Day).
Reference Entity:	As shown in the relevant Confirmation.
Reference Obligation:	As shown in the relevant Confirmation. Section 2.30 of the Credit Derivatives Definitions shall not apply.
Reference Policy:	As shown in the relevant Confirmation.
Reference Price:	As shown in the relevant Confirmation.
Applicable Percentage:	On any day, a percentage equal to A divided by B. "A" means the product of the Initial Face Amount and the Initial Factor as decreased on each Delivery Date by an amount equal to (a) the outstanding principal balance of Deliverable Obligations Delivered to Seller (as adjusted by the Relevant Amount, if any) divided by the Current Factor on such day multiplied by (b) the Initial Factor. "B" means the product of the Original Principal Amount and the Initial Factor; (a) as increased by the outstanding principal balance of any further issues by the Reference Entity that are fungible with and form part of the same legal series as the Reference Obligation; and (b) as decreased by any cancellations of some or all of the Outstanding Principal Amount resulting from purchases of the Reference Obligation by or on behalf of the Reference

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Entity.[3]

Initial Face Amount:	As shown in the relevant Confirmation.
Reference Obligation Notional Amount:	On the Effective Date, the product of: (a) the Original Principal Amount; (b) the Initial Factor; and (c) the Applicable Percentage. Following the Effective Date, the Reference Obligation Notional Amount will be: (i) decreased on each day on which a Principal Payment is made by the relevant Principal Payment Amount; (ii) decreased on the day, if any, on which a Failure to Pay Principal occurs by the relevant Principal Shortfall Amount; (iii) decreased on each day on which a Writedown occurs by the relevant Writedown Amount; (iv) increased on each day on which a Writedown Reimbursement occurs by any Writedown Reimbursement Amount in respect of a Writedown Reimbursement within paragraphs (ii) or (iii) of the definition of "Writedown Reimbursement"; and (v) decreased on each Delivery Date by an amount equal to the relevant Exercise Amount minus the amount determined pursuant to paragraph (b) of "Physical Settlement Amount" below, provided that if any Relevant Amount is applicable, the Exercise Amount will also be deemed to be decreased by such Relevant Amount (or increased by the absolute value of such Relevant Amount if such Relevant Amount is negative) with effect from such Delivery Date; provided that if the Reference Obligation Notional Amount would be less than zero, it shall be deemed to be zero. For the avoidance of doubt, the Reference Obligation Notional Amount shall not be increased by any deferral or capitalization of interest that relates to the Term of this Transaction or decreased by payment of any

[3] This represents the percentage covered by the relevant Transaction of the Outstanding Principal Amount. It may be more than 100%.

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		portion of the principal balance of the Reference Obligation that is attributable to the deferral or capitalization of interest during the Term of this Transaction.
	Initial Payment:	As shown in the relevant Confirmation.
2.	**Fixed Payments:**	
	Fixed Rate Payer:	Buyer
	Fixed Rate:	As shown in the relevant Confirmation, subject to adjustment in accordance with paragraph 6 below.
	Fixed Rate Payer Period End Date:	The first day of each Reference Obligation Calculation Period.
	Fixed Rate Payer Payment Dates:	In the relevant Confirmation, the parties shall specify either "Not CMBS Convention" or "CMBS Convention" as applicable. If "Not CMBS Convention" is specified in the relevant Confirmation, the Fixed Rate Payer Payment Dates shall be each day falling five Business Days after a Reference Obligation Payment Date; provided that the final Fixed Rate Payer Payment Date shall fall on the fifth Business Day following the Effective Maturity Date. If "CMBS Convention" is specified in the relevant Confirmation, the Fixed Rate Payer Payment Dates shall be, after each Reference Obligation Payment Date, the next following 25th calendar day of the month, except that when a Reference Obligation Payment Date falls on or after 25th calendar day of a month, the Fixed Rate Payer Payment Date in respect of such Reference Obligation Payment Date shall be 25th calendar day of the next following month; provided that the final Fixed Rate Payer Payment Date shall fall on the fifth Business Day following the Effective Maturity Date.
	Fixed Amount:	In the relevant Confirmation, the parties shall specify "Fixed Amount definition for underlying with no payment delay" or "Fixed Amount definition for underlying with payment delay". If "Fixed Amount definition for underlying with no payment delay" is specified in the relevant Confirmation, the Fixed Amount shall be, with respect to any Fixed Rate Payer Payment Date, an amount equal to the product of:

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(a) the Fixed Rate;

(b) an amount determined by the Calculation Agent equal to:

(i) the sum of the Reference Obligation Notional Amount as at 5:00 p.m. in the Calculation Agent City on each day in the related Fixed Rate Payer Calculation Period; divided by

(ii) the actual number of days in the related Fixed Rate Payer Calculation Period; and

(c) the actual number of days in the related Fixed Rate Payer Calculation Period divided by 360.

If "Fixed Amount definition for underlying with payment delay" is specified in the relevant Confirmation, then the Fixed Amount shall be with respect to any Fixed Rate Payer Payment Date, an amount equal to the product of:

(a) the Fixed Rate;

(b) the Reference Obligation Notional Amount outstanding on the last day of the Reference Obligation Calculation Period related to such Fixed Rate Payer Payment Date, as adjusted for any increases or decreases of the Reference Obligation Notional Amount on the Reference Obligation Payment Date immediately preceding the related Reference Obligation Payment Date; and

(c) the actual number of days in the related Fixed Rate Payer Calculation Period divided by 360.

Additional Fixed Amount Payment Dates:

(a) Each Fixed Rate Payer Payment Date; and

(b) in relation to each Additional Fixed Payment Event occurring after the second Business Day prior to the last Fixed Rate Payer Payment Date, the fifth Business Day after Buyer has received notification from Seller or the Calculation Agent of the occurrence of such Additional Fixed Payment Event.

Additional Fixed Payments: Following the occurrence of an Additional Fixed Payment Event in respect of the Reference Obligation, Buyer shall pay the relevant Additional Fixed Amount to Seller on the first Additional Fixed Amount Payment Date falling at least two Business Days (or in the case of an Additional Fixed Payment Event that occurs after

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	the second Business Day prior to the last Fixed Rate Payer Payment Date, five Business Days) after the delivery of a notice by the Calculation Agent to the parties or by Seller to Buyer stating that the related Additional Fixed Amount is due and showing in reasonable detail how such Additional Fixed Amount was determined; provided that any such notice must be given on or prior to the fifth Business Day following the day that is one calendar year after the Effective Maturity Date.
Additional Fixed Payment Event:	The occurrence on or after the Effective Date and on or before the day that is one calendar year after the Effective Maturity Date of a Writedown Reimbursement, a Principal Shortfall Reimbursement or an Interest Shortfall Reimbursement.
Additional Fixed Amount:	With respect to each Additional Fixed Amount Payment Date, an amount equal to the sum of: (a) the Writedown Reimbursement Payment Amount (if any); (b) the Principal Shortfall Reimbursement Payment Amount (if any); and (c) the Interest Shortfall Reimbursement Payment Amount (if any). For the avoidance of doubt, each Writedown Reimbursement Payment Amount, Principal Shortfall Reimbursement Payment Amount or Interest Shortfall Reimbursement Payment Amount (as applicable) shall be calculated using the Applicable Percentage which takes into account the aggregate adjustment made to the Applicable Percentage in respect of all Delivery Dates that have occurred prior to the date of such calculation.
3. Floating Payments:	
Floating Rate Payer:	Seller
Floating Rate Payer Payment Dates:	In relation to a Floating Amount Event, the first Fixed Rate Payer Payment Date falling at least two Business Days (or in the case of a Floating Amount Event that occurs on the Legal Final Maturity Date or the Final Amortization Date, the fifth Business Day) after delivery of a notice by the Calculation Agent to the parties or a notice by Buyer to Seller that the related Floating Amount is due and showing in reasonable detail how such Floating Amount was determined; provided that any such notice must be given on or prior to the fifth

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	Business Day following the Effective Maturity Date.
Floating Payments:	If a Floating Amount Event occurs, then on the relevant Floating Rate Payer Payment Date, Seller will pay the relevant Floating Amount to Buyer. For the avoidance of doubt, the Conditions to Settlement are not required to be satisfied in respect of a Floating Payment.
Floating Amount Event:	A Writedown, a Failure to Pay Principal or an Interest Shortfall.
Floating Amount:	With respect to each Floating Rate Payer Payment Date, an amount equal to the sum of: (a) the relevant Writedown Amount (if any); (b) the relevant Principal Shortfall Amount (if any); and (c) the relevant Interest Shortfall Payment Amount (if any). For the avoidance of doubt, each Writedown Amount, Principal Shortfall Amount or Interest Shortfall Payment Amount (as applicable) shall be calculated using the Applicable Percentage which takes into account the aggregate adjustment made to the Applicable Percentage in respect of all Delivery Dates that have occurred prior to the date of such calculation.

4. Credit Events and Physical Settlement

Conditions to Settlement:	Credit Event Notice Notifying Party: Buyer Notice of Physical Settlement Notice of Publicly Available Information: Applicable Public Sources: The public sources listed in Section 3.7 of the Credit Derivatives Definitions; provided that Servicer Reports in respect of the Reference Obligation and, in respect of a Distressed Ratings Downgrade Credit Event only, any public communications by any of the Rating Agencies in respect of the Reference Obligation shall also be deemed Public Sources.

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provided that if the Calculation Agent has previously delivered a notice to the parties or Buyer has previously delivered a notice to Seller pursuant to the definition of "Floating Rate Payer Payment Dates" above in respect of a Writedown or a Failure to Pay Principal, the only Condition to Settlement with respect to any Credit Event shall be a Notice of Physical Settlement.

The parties agree that with respect to the Transaction and notwithstanding anything to the contrary in the Credit Derivatives Definitions:

(a) the Conditions to Settlement may be satisfied on more than one occasion;

(b) multiple Physical Settlement Amounts may be payable by Seller;

(c) Buyer, when providing a Notice of Physical Settlement, must specify an Exercise Amount and an Exercise Percentage;

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

(e) any Notice of Physical Settlement shall be delivered no later than 30 calendar days after the fifth Business Day following the earlier of the Effective Maturity Date and the Optional Step-up Early Termination Date.

Section 3.2(d) of the Credit Derivatives Definitions is amended to delete the words "that is effective no later than thirty calendar days after the Event Determination Date".

Section 3.3 of the Credit Derivatives Definitions is amended so that the following is added as sub-clause (d):

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	"(d) the expiration of any applicable grace period for a Failure to Pay Principal Credit Event".
Credit Events:	The following Credit Events shall apply to the Transaction (and the first sentence of Section 4.1 of the Credit Derivatives Definitions shall be amended accordingly): Failure to Pay Principal Writedown Additional Credit Event (as shown in the relevant Confirmation).
Obligation:	Reference Obligation Only

5. Interest Shortfall

Interest Shortfall Payment Amount:	In respect of an Interest Shortfall, the relevant Interest Shortfall Amount; provided that, if Interest Shortfall Cap is specified as applicable in the relevant Confirmation and the Interest Shortfall Amount exceeds the Interest Shortfall Cap Amount, the Interest Shortfall Payment Amount in respect of such Interest Shortfall shall be the Interest Shortfall Cap Amount.
Interest Shortfall Cap:	As shown in the relevant Confirmation.
Interest Shortfall Cap Amount:	As set out in the Interest Shortfall Cap Annex.
Actual Interest Amount:	With respect to any Reference Obligation Payment Date, payment by or on behalf of the Issuer of an amount in respect of interest due under the Reference Obligation (including, without limitation, any deferred interest or default 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 that relates to the Term of the Transaction) to the holder(s) of the Reference Obligation in respect of the Reference Obligation.
WAC Cap Interest Provision:	As shown in the relevant Confirmation. For this purpose, "WAC Cap" means a weighted average coupon or weighted average rate cap provision (however defined in the Underlying Instruments) of the Underlying Instruments that limits, increases or decreases the interest rate or interest entitlement in circumstances where the Underlying Instruments as at the Trade Date and without regard to any subsequent amendments, do not provide for any interest shortfall arising as a result of such provision to be deferred, capitalized or otherwise compensated for at

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any future time.

Expected Interest Amount: With respect to any Reference Obligation Payment Date, the amount of current interest that would accrue during the related Reference Obligation Calculation Period calculated using the Reference Obligation Coupon on a principal balance of the Reference Obligation equal to:

(a) the Outstanding Principal Amount taking into account any reductions due to a principal deficiency balance or realized loss amount (however described in the Underlying Instruments) that are attributable to the Reference Obligation minus

(b) the Aggregate Implied Writedown Amount (if any)

and that will be payable on the related Reference Obligation Payment Date assuming for this purpose that sufficient funds are available therefor in accordance with the Underlying Instruments. Except as provided in (a) in the previous sentence, the Expected Interest Amount shall be determined without regard to (i) unpaid amounts in respect of accrued interest on prior Reference Obligation Payment Dates, or (ii) any prepayment penalties or yield maintenance provisions.

The Expected Interest Amount shall be determined:

(x) if WAC Cap Interest Provision is specified as applicable in the relevant Confirmation, after giving effect to any WAC Cap; and

(y) if WAC Cap Interest Provision is specified as not applicable in the relevant Confirmation, without giving effect to any WAC Cap; and

in either case without regard to the effect of any provisions (however described) of such Underlying Instruments that otherwise permit the limitation of due payments to distributions of funds available from proceeds of the Underlying Assets, or that provide for the capitalization or deferral of interest on the Reference Obligation during the Term of the Transaction, or that provide for the extinguishing or reduction of such payments or distributions (each a "Limitation Provision") (but, for the avoidance of doubt, taking account of any Writedown within paragraph (i) of the definition of "Writedown" occurring in accordance with the Underlying Instruments)[4].

For the purposes of calculating the Expected Interest Amount, and notwithstanding any other provision herein, the Reference Obligation Coupon shall be deemed to include any cap stated in the Underlying Instrument that is not a

[4] Note that this will not impact the determination of "Expected Interest Amount" in respect of a Reference Obligation that does not have a Limitation Provision.

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Limitation Provision and, where WAC Cap Interest Provision is specified as not applicable in the relevant Confirmation, is not a WAC Cap.

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

For the avoidance of doubt, the occurrence of an event within (a) or (b) shall be determined taking into account any payment made under the Reference Policy, if applicable.

Interest Shortfall Amount: With respect to any Reference Obligation Payment Date, an amount equal to the greater of:

(a) zero; and

(b) the amount equal to the product of:

(i) (A) the Expected Interest Amount;

minus

(B) the Actual Interest Amount; and

(ii) the Applicable Percentage;

provided that, with respect to the first Reference Obligation Payment Date only, the Interest Shortfall Amount shall be the amount determined in accordance with (a) and (b) above multiplied by a fraction equal to:

(x) the number of days in the first Fixed Rate Payer Calculation Period; over

(y) the number of days in the first Reference Obligation Calculation Period.

Interest Shortfall Reimbursement: With respect to any Reference Obligation Payment Date, the payment by or on behalf of the Issuer of an Actual Interest Amount in respect of the Reference Obligation that is greater than the Expected Interest Amount.

Interest Shortfall Reimbursement Amount: With respect to any Reference Obligation Payment Date, the product of (a) the amount of any Interest Shortfall Reimbursement on such day and (b) the Applicable Percentage.

Interest Shortfall Reimbursement Payment Amount: If Interest Shortfall Cap is specified as not applicable in the relevant Confirmation, the relevant Interest Shortfall Reimbursement Amount. If Interest Shortfall Cap is specified as applicable in the relevant Confirmation, the amount

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determined pursuant to the Interest Shortfall Cap Annex.

6. Consequences of Step-up of the Reference Obligation Coupon

Step-up provisions:	As shown in the relevant Confirmation. If the Step-up provisions are applicable, then the following provisions of this paragraph 6 shall apply.
Step-up:	On any day, an increase in the Reference Obligation Coupon due to the failure of the Issuer or a third party to exercise, in accordance with the Underlying Instruments, a "clean-up call" or other right to purchase, redeem, cancel or terminate (however described in the Underlying Instruments) the Reference Obligation.
Non-Call Notification Date:	The date of delivery by the Calculation Agent to the parties or by Buyer to Seller of a Non-Call Notice.
Non-Call Notice:	A notice given by the Calculation Agent to the parties or by Buyer to Seller that the Reference Obligation has not been purchased, redeemed, cancelled or terminated by the Issuer or a third party, in accordance with the Underlying Instruments, pursuant to a "clean-up call" or other right to purchase, redeem, cancel or terminate (however described in the Underlying Instruments) the Reference Obligation, which failure will result in the occurrence of a Step-up.
Increase of the Fixed Rate:	Subject to "Optional Step-up Early Termination" below, upon the occurrence of a Step-up, the Fixed Rate will be increased by the number of basis points by which the Reference Obligation Coupon is increased due to the Step-up, such increase to take effect as of the Fixed Rate Payer Payment Date immediately following the fifth Business Day after the Non-Call Notification Date.
Optional Step-up Early Termination:	No later than five Business Days after the Non-Call Notification Date, Buyer shall notify Seller (such notification, a "Buyer Step-up Notice") whether Buyer wishes to continue the Transaction at the increased Fixed Rate or to terminate the Transaction. If Buyer elects to terminate the Transaction, the date of delivery of the Buyer Step-up Notice shall be the Scheduled Termination Date (such date, the "Optional Step-up Early Termination Date") and in such case "Increase of the Fixed Rate" in this paragraph 6 shall not apply. No amount shall be payable by either party in respect of the Optional Step-up Early Termination Date other than any Fixed Amount, Additional Fixed Amount, Floating Amount or Physical Settlement Amount calculated in accordance with the terms hereof. For the avoidance of doubt, the obligation of a party to pay any amount that has become due and

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payable under the Transaction and remains unpaid as at the Optional Step-up Early Termination Date shall not be affected by the occurrence of the Optional Step-up Early Termination Date.

If Buyer fails to deliver the Buyer Step-up Notice by the fifth Business Day after the Non-Call Notification Date, Buyer shall be deemed to have elected to continue the Transaction at the increased Fixed Rate as described under "Increase of the Fixed Rate".

If Buyer elects, or is deemed to have elected, to continue the Transaction at the increased Fixed Rate, the Transaction shall continue.

7. Settlement Terms

Settlement Method:	Physical Settlement
Terms Relating to Physical Settlement:	
Physical Settlement Period:	Five Business Days
Deliverable Obligations:	Exclude Accrued Interest
Deliverable Obligations:	Deliverable Obligation Category: Reference Obligation Only
Physical Settlement Amount:	An amount equal to:

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

(b) the sum of:

(i) if the Aggregate Implied Writedown Amount is greater than zero, the product of (A) the Aggregate Implied Writedown Amount, (B) the Applicable Percentage, each as determined immediately prior to the relevant Delivery and (C) the relevant Exercise Percentage; and

(ii) the product of (A) the aggregate of all Writedown Amounts in respect of Writedowns within paragraph (i)(B) of the definition of "Writedown" minus the aggregate of all Writedown Reimbursement Amounts in respect of Writedown Reimbursements within paragraph (ii)(B) of the definition of "Writedown Reimbursement" and (B) the relevant Exercise Percentage;

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provided that if the Physical Settlement Amount would exceed the product of:

(1) the Reference Obligation Notional Amount as of the date on which the relevant Notice of Physical Settlement is delivered calculated as though Physical Settlement in respect of all previously delivered Notices of Physical Settlement has occurred in full; and

(2) the Exercise Percentage;

then the Physical Settlement Amount shall be deemed to be equal to such product.

Delayed Payment: With respect to a Delivery Date, if a Servicer Report that describes a Delayed Payment is delivered to holders of the Reference Obligation or to the Calculation Agent on or after such Delivery Date, Buyer will pay the applicable Delayed Payment Amount to Seller no later than five Business Days following the later of (a) the day on which such Servicer Report is delivered and (b) the day on which such Delayed Payment is due and payable.

Escrow: Applicable

Non-delivery by Buyer or occurrence of the Effective Maturity Date: If Buyer has delivered a Notice of Physical Settlement and:

(a) Buyer does not Deliver in full the Deliverable Obligations specified in that Notice of Physical Settlement on or prior to the Physical Settlement Date; or

(b) the Effective Maturity Date occurs after delivery of the Notice of Physical Settlement but before Buyer Delivers the Deliverable Obligations specified in that Notice of Physical Settlement;

then such Notice of Physical Settlement shall be deemed not to have been delivered and any reference in these CDS on MBS Terms to a previously delivered Notice of Physical Settlement shall exclude any Notice of Physical Settlement that is deemed not to have been delivered. Sections 9.2(c)(ii) (except for the first sentence thereof), 9.3, 9.4, 9.5, 9.6, 9.9 and 9.10 of the Credit Derivatives Definitions shall not apply.

8. Additional Provisions:

(a) *Delivery of Servicer Report*

If either party makes a request in writing, the Calculation Agent agrees to provide such party with a copy of the most recent Servicer Report promptly following receipt of such request, if and to the extent such Servicer Report is reasonably available to the Calculation Agent (whether or not the

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Calculation Agent is a holder of the Reference Obligation). In addition, if a Floating Payment or an Additional Fixed Payment is due hereunder, then the Calculation Agent or the party that notifies the other party that the relevant Floating Payment or Additional Fixed Payment is due, as applicable, (the "Notifying Party") shall deliver a copy of any Servicer Report relevant to such payment that is requested by the party that is not the Notifying Party or by either party where the Notifying Party is the Calculation Agent, if and to the extent that such Servicer Report is reasonably available to the Notifying Party (whether or not the Notifying Party is a holder of the Reference Obligation).

(b) *Calculation Agent and Buyer and Seller Determinations*

The Calculation Agent shall be responsible for determining and calculating (i) the Fixed Amount payable on each Fixed Rate Payer Payment Date; (ii) the occurrence of a Floating Amount Event and the related Floating Amount and (iii) the occurrence of an Additional Fixed Payment Event and the related Additional Fixed Amount; provided that notwithstanding the above, each of Buyer and Seller shall be entitled to determine and calculate the above amounts to the extent that Buyer or Seller, as applicable, has the right to deliver a notice to the other party demanding payment of such amount. The Calculation Agent or Buyer or Seller, as applicable, shall make such determinations and calculations based solely on the basis of the Servicer Reports, to the extent such Servicer Reports are reasonably available to the Calculation Agent or such party. The Calculation Agent or Buyer or Seller, as applicable, shall, as soon as practicable after making any of the determinations or calculations specified in (i) and (ii) above, notify the parties or the other party, as applicable, of such determinations and calculations. For the avoidance of doubt, if an Interest Shortfall Amount is not explicitly set out in the Servicer Report but the Calculation Agent determines that an Interest Shortfall has occurred on the basis of information in such Servicer Report, then the relevant Interest Shortfall Amount shall be calculated by the Calculation Agent on the basis of such information.[5]

(c) *Adjustment of Calculation Agent Determinations*

To the extent that a Servicer furnishes any Servicer Reports correcting information contained in previously issued Servicer Reports, and such corrections impact calculations pursuant to the Transaction, the calculations relevant to the Transaction shall be adjusted retroactively by the Calculation Agent to reflect the corrected information (provided that, for the avoidance of doubt, no amounts in respect of interest shall be payable by either party and provided that the Calculation Agent in performing the calculations pursuant to this paragraph will assume that no interest has accrued on any adjusted amount), and the Calculation Agent shall promptly notify both parties of any corrected payments required by either party. Any required corrected payments shall be made within five Business Days of the day on which such notification by the Calculation Agent is effective.

9, Additional Definitions and Amendments to the Credit Derivatives Definitions

(a) References in Sections 4.1, 8.2, 9.1 and 9.2(a) of the Credit Derivatives Definitions as well as Section 3(a)(iv) of the form of Novation Agreement set forth in Exhibit E to the Credit Derivatives Definitions to the Reference Entity shall be deemed to be references to both the Reference Entity and the Insurer in respect of the Reference Policy, if applicable.

(b) (i) The definition of "Publicly Available Information" in Section 3.5 of the Credit Derivatives Definitions shall be amended by (i) inserting the words "the Insurer in respect of the Reference Policy, if applicable" at the end of subparagraph (a)(ii)(A) thereof, (ii) inserting the words ", servicer, sub-servicer, master servicer" before the words "or paying agent" in subparagraph (a)(ii)(B) thereof and (iii) deleting the word "or" at the end of subparagraph (a)(iii) thereof and inserting at the end of subparagraph (a)(iv) thereof the following: "or (v)

[5] This is intended to cover any situation in which the Servicer Report does not report on Interest Shortfalls.

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is information contained in a notice or on a website published by an internationally recognized rating agency that has at any time rated the Reference Obligation".

(ii) The definition of "Physical Settlement" in Section 8.1 of the Credit Derivatives Definitions shall be amended by (i) deleting the words "Physical Settlement Amount" from the last line of the second paragraph thereof and (ii) inserting in lieu thereof the words "Exercise Amount".

(iii) The definition of "Physical Settlement Date" in Section 8.4 of the Credit Derivatives Definitions shall be amended by deleting the last sentence thereof.

(c) For the purposes of the Transaction only, the following terms have the meanings given below:

"Actual Principal Amount" means, with respect to the Final Amortization Date or the Legal Final Maturity Date, an amount paid on such day by or on behalf of the Issuer in respect of principal (excluding any amount representing capitalized interest that relates to the Term of the Transaction) to the holder(s) of the Reference Obligation in respect of the Reference Obligation.

"Aggregate Implied Writedown Amount" means the greater of (i) zero and (ii) the aggregate of all Implied Writedown Amounts minus the aggregate of all Implied Writedown Reimbursement Amounts.

"Current Factor" means the factor of the Reference Obligation as specified in the most recent Servicer Report; provided that if the factor is not specified in the most recent Servicer Report or the factor specified includes deferred or capitalized interest that relates to the Term of the Transaction, then the Current Factor shall be the ratio equal to (i) the Outstanding Principal Amount as of such date, determined in accordance with the most recent Servicer Report over (ii) the Original Principal Amount.

"Current Period Implied Writedown Amount" means, in respect of a Reference Obligation Calculation Period, an amount determined as of the last day of such Reference Obligation Calculation Period equal to the greater of:

(i) zero; and

(ii) the product of:

(A) the Implied Writedown Percentage; and

(B) the greater of:

(1) zero; and

(2) the lesser of (x) the Pari Passu Amount and (y) the Pari Passu Amount plus the Senior Amount minus the aggregate outstanding asset pool balance securing the payment obligations on the Reference Obligation (all such outstanding asset pool balances as obtained by the Calculation Agent from the most recently dated Servicer Report available as of such day), calculated based on the face amount of the assets then in such pool, whether or not any such asset is performing.

"Delayed Payment" means, with respect to a Delivery Date, a Principal Payment, Principal Shortfall Reimbursement or a Writedown Reimbursement within paragraph (i) of the definition of "Writedown Reimbursement" that is described in a Servicer Report delivered to holders of the Reference Obligation or to the Calculation Agent on or after such Delivery Date.

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"Delayed Payment Amount" means, if persons who are holders of the Reference Obligation as of a date prior to a Delivery Date are paid a Delayed Payment on or after such Delivery Date, an amount equal to the product of (i) the sum of all such Delayed Payments, (ii) the Reference Price, (iii) the Applicable Percentage immediately prior to such Delivery Date and (iv) the Exercise Percentage.

"Distressed Ratings Downgrade" means that the Reference Obligation:

(i) if publicly rated by Moody's, (A) is downgraded to "Caa2" or below by Moody's or (B) has the rating assigned to it by Moody's withdrawn and, in either case, not reinstated within five Business Days of such downgrade or withdrawal; provided that if such Reference Obligation was assigned a public rating of "Baa3" or higher by Moody's immediately prior to the occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "Caa1" by Moody's within three calendar months 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 shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "CCC+" by Standard & Poor's within three calendar months 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 shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "CCC+" by Fitch within three calendar months after such withdrawal.

"Effective Maturity Date" means the earlier of (a) the Scheduled Termination Date and (b) the Final Amortization Date.

"Exercise Amount" means, for purposes of the Transaction, an amount to which a Notice of Physical Settlement relates equal to the product of (i) the original face amount of the Reference Obligation to be Delivered by Buyer to Seller on the applicable Physical Settlement Date; and (ii) the Current Factor as of such date. The Exercise Amount to which a Notice of Physical Settlement relates shall (A) be equal to or less than the Reference Obligation Notional Amount (determined, for this purpose, without regard to the effect of any Writedown or Writedown Reimbursement within paragraphs (i)(B) or (iii) of "Writedown" or paragraphs (ii)(B) or (iii) of "Writedown Reimbursement", respectively) as of the date on which the relevant Notice of Physical Settlement is delivered calculated as though the Physical Settlement of all previously delivered Notices of Physical Settlement has occurred in full and (B) not be less than the lesser of (1) the Reference Obligation Notional Amount as of the date on which the relevant Notice of Physical Settlement is delivered calculated as though Physical Settlement in respect of all previously delivered Notices of Physical Settlement has occurred in full and (2) USD100,000. The cumulative original face amount of Deliverable Obligations specified in all Notices of Physical Settlement shall not at any time exceed the Initial Face Amount. For the avoidance of doubt: (a) if any capitalization or deferral of interest in respect of the Reference Obligation has occurred during the Term of the Transaction and has not been recovered by holders of the Reference Obligation pursuant to the terms of the Underlying Instruments, then, for the purpose of determining the amount of Deliverable Obligations to be Delivered, the Exercise Amount (determined above by reference to the original face amount) will represent an outstanding

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principal balance of the Reference Obligation to be Delivered by Buyer that includes the proportion of unrecovered interest attributable to the Reference Obligation to be Delivered and (b) notwithstanding the foregoing, the Physical Settlement Amount payable by Seller in relation to such Exercise Amount shall not include any amount in respect of such unrecovered interest.

"Exercise Percentage" means, with respect to a Notice of Physical Settlement, a percentage equal to the original face amount of the Deliverable Obligations specified in such Notice of Physical Settlement divided by an amount equal to (i) the Initial Face Amount minus (ii) the aggregate of the original face amount of all Deliverable Obligations specified in all previously delivered Notices of Physical Settlement.

"Expected Principal Amount" means, with respect to the Final Amortization Date or the Legal Final Maturity Date, an amount equal to (i) the Outstanding Principal Amount of the Reference Obligation payable on such day (excluding any amount representing capitalized interest that relates to the Term of the Transaction) assuming for this purpose that sufficient funds are available for such payment, where such amount shall be determined in accordance with the Underlying Instruments, minus (ii) the sum of (A) the Aggregate Implied Writedown Amount (if any) and (B) the net aggregate principal deficiency balance or realized loss amounts (however described in the Underlying Instruments) that are attributable to the Reference Obligation. The Expected Principal Amount shall be determined without regard to the effect of any provisions (however described) of the Underlying Instruments that permit the limitation of due payments or distributions of funds in accordance with the terms of such Reference Obligation or that provide for the extinguishing or reduction of such payments or distributions.

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

"Final Amortization Date" means the first to occur of (i) the date on which the Reference Obligation Notional Amount is reduced to zero and (ii) the date on which the assets securing the Reference Obligation or designated to fund amounts due in respect of the Reference Obligation are liquidated, distributed or otherwise disposed of in full and the proceeds thereof are distributed or otherwise disposed of in full.

"Fitch" means Fitch Ratings or any successor to its rating business.

"Implied Writedown Amount" means, (i) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) of the definition of "Writedown" to occur in respect of the Reference Obligation, on any Reference Obligation Payment Date, an amount determined by the Calculation Agent equal to the excess, if any, of the Current Period Implied Writedown Amount over the Previous Period Implied Writedown Amount, in each case in respect of the Reference Obligation Calculation Period to which such Reference Obligation Payment Date relates, and (ii) in any other case, zero.

"Implied Writedown Percentage" means (i) the Outstanding Principal Amount divided by (ii) the Pari Passu Amount.

"Implied Writedown Reimbursement Amount" means, (i) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) of the definition of "Writedown" to occur in respect of the Reference Obligation, on any Reference

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Obligation Payment Date, an amount determined by the Calculation Agent equal to the excess, if any, of the Previous Period Implied Writedown Amount over the Current Period Implied Writedown Amount, in each case in respect of the Reference Obligation Calculation Period to which such Reference Obligation Payment Date relates, and (ii) in any other case, zero, provided that the aggregate of all Implied Writedown Reimbursement Amounts at any time shall not exceed the Outstanding Principal Amount.

"Legal Final Maturity Date" means the date set out in paragraph 1 above (subject, for the avoidance of doubt, to any business day convention applicable to the legal final maturity date of the Reference Obligation), provided that if the legal final maturity date of the Reference Obligation is amended, the Legal Final Maturity Date shall be such date as amended.

"Moody's" means Moody's Investors Service, Inc. or any successor to its rating business.

"Outstanding Principal Amount" means, as of any date of determination with respect to the Reference Obligation, the outstanding principal balance of the Reference Obligation as of such date, which shall take into account:

(i) all payments of principal;

(ii) all writedowns or applied losses (however described in the Underlying Instruments) resulting in a reduction in the outstanding principal balance of the Reference Obligation (other than as a result of a scheduled or unscheduled payment of principal);

(iii) forgiveness of any amount by the holders of the Reference Obligation pursuant to an amendment to the Underlying Instruments resulting in a reduction in the outstanding principal balance of the Reference Obligation;

(iv) any payments reducing the amount of any reductions described in (ii) and (iii) of this definition; and

(v) any increase in the outstanding principal balance of the Reference Obligation that reflects a reversal of any prior reductions described in (ii) and (iii) of this definition; and

(vi) any increase in the outstanding principal balance of the Reference Obligation that is attributable to the deferral or capitalization of interest prior to the Effective Date.

For the avoidance of doubt, the Outstanding Principal Amount shall not include any portion of the outstanding principal balance of the Reference Obligation that is attributable to the deferral or capitalization of interest during the Term of this Transaction.

"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.

"Previous Period Implied Writedown Amount" means, in respect of a Reference Obligation Calculation Period, the Current Period Implied Writedown Amount as determined in relation to the last day of the immediately preceding Reference Obligation Calculation Period.

"Principal Payment" means, with respect to any Reference Obligation Payment Date, the occurrence of a payment of an amount to the holders of the Reference Obligation in respect of principal (scheduled or unscheduled) in respect of the Reference Obligation other than a payment in respect of principal representing capitalized interest that relates to the Term of the Transaction,

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excluding, for the avoidance of doubt, any Writedown Reimbursement or Interest Shortfall Reimbursement.

"Principal Payment Amount" means, with respect to any Reference Obligation Payment Date, an amount equal to the product of (i) the amount of any Principal Payment on such date and (ii) the Applicable Percentage.

"Principal Shortfall Amount" means, in respect of a Failure to Pay Principal, an amount equal to the greater of:

(i) zero; and

(ii) the amount equal to the product of:

(A) the Expected Principal Amount minus the Actual Principal Amount;

(B) the Applicable Percentage; and

(C) the Reference Price.

If the Principal Shortfall Amount would be greater than the Reference Obligation Notional Amount immediately prior to the occurrence of such Failure to Pay Principal, then the Principal Shortfall Amount shall be deemed to be equal to the Reference Obligation Notional Amount at such time.

"Principal Shortfall Reimbursement" means, with respect to any day, the payment by or on behalf of the Issuer of an amount in respect of the Reference Obligation in or toward the satisfaction of any deferral of or failure to pay principal arising from one or more prior occurrences of a Failure to Pay Principal.

"Principal Shortfall Reimbursement Amount" means, with respect to any day, the product of (i) the amount of any Principal Shortfall Reimbursement on such day, (ii) the Applicable Percentage and (iii) the Reference Price.

"Principal Shortfall Reimbursement Payment Amount" means, with respect to an Additional Fixed Amount Payment Date, the sum of the Principal Shortfall Reimbursement Amounts in respect of all Principal Shortfall Reimbursements (if any) made during the Reference Obligation Calculation Period relating to such Additional Fixed Amount Payment Date, provided that the aggregate of all Principal Shortfall Reimbursement Payment Amounts at any time shall not exceed the aggregate of all Floating Amounts paid by Seller in respect of occurrences of Failure to Pay Principal prior to such Additional Fixed Amount Payment Date.

"Rating Agencies" means Fitch, Moody's and Standard & Poor's.

"Reference Obligation Calculation Period" means, with respect to each Reference Obligation Payment Date, a period corresponding to the interest accrual period relating to such Reference Obligation Payment Date pursuant to the Underlying Instruments.

"Reference Obligation Coupon" means the periodic interest rate applied in relation to each Reference Obligation Calculation Period on the related Reference Obligation Payment Date, as determined in accordance with the terms of the Underlying Instruments as at the Effective Date, without regard to any subsequent amendment.

"Reference Obligation Payment Date" means (i) each scheduled distribution date for the Reference Obligation occurring on or after the Effective Date and on or prior to the Scheduled Termination Date, determined in accordance with the Underlying Instruments and (ii) any day

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after the Effective Maturity Date on which a payment is made in respect of the Reference Obligation.

"Relevant Amount" means, if a Servicer Report that describes a Principal Payment, Writedown or Writedown Reimbursement (other than a Writedown Reimbursement within paragraph (i) of "Writedown Reimbursement"), in each case that has the effect of decreasing or increasing the interest-accruing principal balance of the Reference Obligation as of a date prior to a Delivery Date but such Servicer Report is delivered to holders of the Reference Obligation or to the Calculation Agent on or after such Delivery Date, an amount equal to the product of (i) the sum of any such Principal Payment (expressed as a positive amount), Writedown (expressed as a positive amount) or Writedown Reimbursement (expressed as a negative amount), as applicable; (ii) the Reference Price; (iii) the Applicable Percentage immediately prior to such Delivery Date; and (iv) the Exercise Percentage.

"Senior Amount" means, as of any day, the aggregate outstanding principal balance of all obligations of the Reference Entity secured by the Underlying Assets and ranking senior in priority to the Reference Obligation.

"Servicer" means any trustee, servicer, sub-servicer, master servicer, fiscal agent, paying agent or other similar entity responsible for calculating payment amounts or providing reports pursuant to the Underlying Instruments.

"Servicer Reports" means periodic statements or reports regarding the Reference Obligation provided by the Servicer to holders of the Reference Obligation.

"Standard & Poor's" means Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. or any successor to its rating business.

"Underlying Assets" means the assets securing the Reference Obligation for the benefit of the holders of the Reference Obligation and which are expected to generate the cashflows required for the servicing and repayment (in whole or in part) of the Reference Obligation, or the assets to which a holder of such Reference Obligation is economically exposed where such exposure is created synthetically.

"Underlying Instruments" means the indenture, trust agreement, pooling and servicing agreement or other relevant agreement(s) setting forth the terms of the Reference Obligation.

"Writedown" means the occurrence at any time on or after the Effective Date of:

(i) (A) a writedown or applied loss (however described in the Underlying Instruments) resulting in a reduction in the Outstanding Principal Amount (other than as a result of a scheduled or unscheduled payment of principal); or

(B) the attribution of a principal deficiency or realized loss (however described in the Underlying Instruments) to the Reference Obligation resulting in a reduction 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; or

(iii) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) above to occur in respect of the Reference Obligation, an Implied Writedown Amount being determined in respect of the Reference Obligation by the Calculation Agent.

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"Writedown Amount" means, with respect to any day, the product of (i) the amount of any Writedown on such day, (ii) the Applicable Percentage and (iii) the Reference Price.

"Writedown Reimbursement" means, with respect to any day, the occurrence of:

(i) a payment by or on behalf of the Issuer of an amount in respect of the Reference Obligation in reduction of any prior Writedowns;

(ii) (A) an increase by or on behalf of the Issuer of the Outstanding Principal Amount of the Reference Obligation to reflect the reversal of any prior Writedowns; or

(B) a decrease in the principal deficiency balance or realized loss amounts (however described in the Underlying Instruments) attributable to the Reference Obligation; or

(iii) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (ii) above to occur in respect of the Reference Obligation, an implied Writedown Reimbursement Amount being determined in respect of the Reference Obligation by the Calculation Agent.

"Writedown Reimbursement Amount" means, with respect to any day, an amount equal to the product of:

(i) the sum of all Writedown Reimbursements on that day;

(ii) the Applicable Percentage; and

(iii) the Reference Price.

"Writedown Reimbursement Payment Amount" means, with respect to an Additional Fixed Amount Payment Date, the sum of the Writedown Reimbursement Amounts in respect of all Writedown Reimbursements (if any) made during the Reference Obligation Calculation Period relating to such Additional Fixed Amount Payment Date, provided that the aggregate of all Writedown Reimbursement Payment Amounts at any time shall not exceed the aggregate of all Floating Amounts paid by Seller in respect of Writedowns occurring prior to such Additional Fixed Amount Payment Date.

Interest Shortfall Cap Annex

If Interest Shortfall Cap is specified as applicable in the relevant Confirmation, then the following provisions will apply:

Interest Shortfall Cap Basis:	As shown in the relevant Confirmation.
Interest Shortfall Cap Amount:	If the Interest Shortfall Cap Basis is Fixed Cap, the Interest Shortfall Cap Amount in respect of an Interest Shortfall shall be the Fixed Amount calculated in respect of the Fixed Rate Payer Payment Date immediately following the Reference Obligation Payment Date on which the relevant Interest Shortfall occurred. If the Interest Shortfall Cap Basis is Variable Cap, the Interest Shortfall Cap Amount applicable in respect of a Floating Rate Payer Payment Date shall be an amount

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equal to the product of:

(a) the sum of the Relevant Rate and the Fixed Rate applicable to the Fixed Rate Payer Calculation Period immediately preceding the Reference Obligation Payment Date on which the relevant Interest Shortfall occurs;

(b) the amount determined by the Calculation Agent under sub-clause (b) of the definition of "Fixed Amount" in relation to the relevant Fixed Rate Payer Payment Date; and

(c) the actual number of days in such Fixed Rate Payer Calculation Period divided by 360.

Interest Shortfall Compounding: As shown in the relevant Confirmation.

Interest Shortfall Reimbursement Payment Amount: If Interest Shortfall Cap is specified as applicable in the relevant Confirmation, then with respect to the first Additional Fixed Amount Payment Date, zero, and with respect to any subsequent Additional Fixed Amount Payment Date and calculated as of the Reference Obligation Payment Date immediately preceding such Additional Fixed Amount Payment Date, as specified by the Calculation Agent in its notice to the parties or by Seller in its notice to Buyer of the existence of an Interest Shortfall Reimbursement, an amount equal to the greater of:

(a) zero; and

(b) the amount equal to:

(i) the product of:

(A) the Cumulative Interest Shortfall Payment Amount as of the Additional Fixed Amount Payment Date immediately preceding such Reference Obligation Payment Date; and

(B) either:

(1) if Interest Shortfall Compounding is specified as applicable in the relevant Confirmation, the relevant Cumulative Interest Shortfall Payment Compounding Factor for the Fixed Rate Payer Calculation Period immediately preceding such

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Additional Fixed Amount Payment Date (or 1.0 in respect of any Additional Fixed Amount Payment Date occurring after the final Fixed Rate Payer Payment Date); or

(2) if Interest Shortfall Compounding is specified as not applicable in the relevant Confirmation, 1;

minus

(ii) the Cumulative Interest Shortfall Amount as of such Reference Obligation Payment Date;

provided that if the Interest Shortfall Reimbursement Payment Amount on an Additional Fixed Amount Payment Date would exceed the Interest Shortfall Reimbursement Amount in respect of the related Reference Obligation Payment Date, then such Interest Shortfall Reimbursement Payment Amount shall be deemed to be equal to such Interest Shortfall Reimbursement Amount.

Cumulative Interest Shortfall Amount: With respect to any Reference Obligation Payment Date, an amount equal to the greater of:

(a) zero; and

(b) an amount equal to:

(i) the Cumulative Interest Shortfall Amount as of the Reference Obligation Payment Date immediately preceding such Reference Obligation Payment Date or, in the case of the first Reference Obligation Payment Date, zero; plus

(ii) the Interest Shortfall Amount (if any) in respect of such Reference Obligation Payment Date; plus

(iii) either:

(A) if Interest Shortfall Compounding is specified as applicable in the relevant Confirmation, an amount determined by the Calculation Agent as the amount of interest that would accrue on the Cumulative Interest Shortfall Amount immediately preceding such

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Reference Obligation Payment Date during the related Reference Obligation Calculation Period pursuant to the Underlying Instruments or, in the case of the first Reference Obligation Payment Date, zero; or

(B) if Interest Shortfall Compounding is specified as not applicable in the relevant Confirmation, 0; minus

(iv) the Interest Shortfall Reimbursement Amount (if any) in respect of such Reference Obligation Payment Date.

Upon the occurrence of each Delivery, the Cumulative Interest Shortfall Amount shall be multiplied by a fraction equal to (a) the Applicable Percentage immediately following such Delivery divided by (b) the Applicable Percentage immediately prior to such Delivery; provided, however, that if more than one Delivery is made during a Reference Obligation Calculation Period, the Cumulative Interest Shortfall Amount calculated as of the Reference Obligation Payment Date occurring immediately after such Reference Obligation Calculation Period shall be multiplied by a fraction equal to (a) the Applicable Percentage immediately following the final Delivery made during such Reference Obligation Calculation Period over (b) the Applicable Percentage immediately prior to the first Delivery made during such Reference Obligation Calculation Period.

Cumulative Interest Shortfall Payment Amount: The Cumulative Interest Shortfall Payment Amount with respect to any Fixed Rate Payer Payment Date and any Additional Fixed Amount Payment Date falling on such Fixed Rate Payer Payment Date shall be an amount equal to the greater of:

(a) zero; and

(b) the amount equal to:

(i) the sum of:

(A) the Interest Shortfall Payment Amount for the Reference Obligation Payment Date corresponding to such Fixed Rate Payer Payment Date; and

(B) the product of:

(1) the Cumulative Interest Shortfall Payment Amount as of the Fixed Rate Payer

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Payment Date immediately preceding such Fixed Rate Payer Payment Date (or zero in the case of the first Fixed Rate Payer Payment Date); and

(2) either:

(AA) if Interest Shortfall Compounding is specified as applicable in the relevant Confirmation, the relevant Cumulative Interest Shortfall Payment Compounding Factor; or

(BB) if Interest Shortfall Compounding is specified as not applicable in the relevant Confirmation, 1;

minus

(ii) any Interest Shortfall Reimbursement Payment Amount paid on such Fixed Rate Payer Payment Date.

With respect to any Additional Fixed Amount Payment Date falling after the final Fixed Rate Payer Payment Date, the Cumulative Interest Shortfall Payment Amount shall be equal to:

(x) the Cumulative Interest Shortfall Payment Amount as of the Additional Fixed Amount Payment Date immediately preceding such Additional Fixed Amount Payment Date (or as of the final Fixed Rate Payer Payment Date in the case of the first Additional Fixed Amount Payment Date occurring after the final Fixed Rate Payer Payment Date); minus

(y) any Interest Shortfall Reimbursement Payment Amount paid on such Additional Fixed Amount Payment Date.

Upon the occurrence of each Delivery, the Cumulative Interest Shortfall Payment Amount shall be multiplied by a fraction equal to (a) the Applicable Percentage immediately following such Delivery divided by (b) the Applicable Percentage immediately prior to such Delivery; provided, however, that if more than one Delivery is made during a Reference Obligation Calculation Period, the Cumulative Interest Shortfall Payment Amount calculated as of the Reference Obligation Payment Date occurring immediately

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after such Reference Obligation Calculation Period shall be multiplied by a fraction equal to (a) the Applicable Percentage immediately following the final Delivery made during such Reference Obligation Calculation Period and (b) the Applicable Percentage immediately prior to the first Delivery made during such Reference Obligation Calculation Period.

Cumulative Interest Shortfall Payment Compounding Factor: With respect to any Fixed Rate Payer Calculation Period, an amount equal to the sum of:

(a) 1.0;

plus

(b) the product of:

(i) the sum of (A) the Relevant Rate plus (B) the Fixed Rate; and

(ii) the actual number of days in such Fixed Rate Payer Calculation Period divided by 360;

provided, however, that the Cumulative Interest Shortfall Payment Compounding Factor shall be deemed to be 1.0 during the period from but excluding the Effective Maturity Date to and including the Termination Date.

Relevant Rate: With respect to a Fixed Rate Payer Calculation Period, the Floating Rate, expressed as a decimal number with seven decimal places, that would be determined if:

(a) the 2000 ISDA Definitions (and not the 2003 ISDA Credit Derivatives Definitions) applied to this paragraph;

(b) the Fixed Rate Payer Calculation Period were a "Calculation Period" for purposes of such determination; and

(c) the following terms applied:

(i) the Floating Rate Option were the Rate Source;

(ii) the Designated Maturity were the period that corresponds to the usual length of a Fixed Rate Payer Calculation Period; and

(iii) the Reset Date were the first day of the Calculation Period;

provided, however, that the Relevant Rate shall be deemed to be zero during the period from but excluding the Effective

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Maturity Date to and including the Termination Date.

Rate Source: As shown in the relevant Confirmation.

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Schedule

Form of Novation Confirmation

[Headed paper of Party A]

NOVATION CONFIRMATION

for use with the ISDA Standard Terms Supplement for use with Credit Derivative Transaction on Mortgage-Backed Security with Pay-As-You-Go or Physical Settlement as published by the International Swaps and Derivatives Association, Inc.

Date:

To: [Name and Address or Facsimile Number of Party B and Party C]

From: [Party A]

Re: Novation Transaction

Dear _____:

The purpose of this [facsimile][letter] is to confirm the terms and conditions of the Novation Transaction entered into between the parties and effective from the Novation Date specified below. This Novation Confirmation constitutes a "Confirmation" as referred to in the New Agreement specified below.

1. The definitions and provisions contained in the 2004 ISDA Novation Definitions (the "Definitions"), the terms and provisions of the 2003 ISDA Credit Derivatives Definitions (the "Credit Derivatives Definitions"), as published by the International Swaps and Derivatives Association, Inc. and amended from time to time and the Annex hereto are each incorporated in this Novation Confirmation. In the event of any inconsistency between (i) the Definitions (as amended by the Annex hereto), (ii) the Credit Derivatives Definitions and/or (iii) the Novation Agreement (as amended by the Annex hereto), this Novation Confirmation will govern.

2. The terms of the Novation Transaction to which this Novation Confirmation relates are as follows:

[Novation Trade Date:]
Novation Date:
Novated Percentage:
[Transferor][Transferor 1 (and notwithstanding Section 1.5 of the Definitions)]:
[Transferor 2 (and notwithstanding Section 1.5 of the Definitions)]:
[Transferee][Transferee 1]:
[Remaining Party (and notwithstanding Section 1.6 of the Definitions)][Transferee 2 (and notwithstanding Section 1.6 of the Definitions)]:

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[New Agreement (between [Transferee 1 and Transferee 2][Transferee and Remaining Party])]:	ISDA Master Agreement [dated as of_____][as per Section 1.11 of the Definitions] subject to [English law][the laws of the State of New York]

3. The terms of each Old Transaction to which this Novation Confirmation relates[, for identification purposes, are as follows:][shall be specified in the copy of the Old Confirmation attached hereto as Exhibit A.]

Reference Entity:
Reference Obligation:
Trade Date of Old Transaction:
Effective Date of Old Transaction:
Applicable Percentage of Old Transaction:
Scheduled Termination Date of Old Transaction:

4. The terms of each New Transaction to which this Novation Confirmation relates [are as follows:][shall be specified in Section[s] __ [,___and___] of] the copy of the Old Confirmation attached hereto as Exhibit A.][shall be specified in the New Confirmation attached hereto as Exhibit [A][B]].

Full First Calculation Period	Applicable, [commencing on [ ]] [commencing on [ ], with respect to any amounts to be paid by the Transferee, and [ ], with respect to any amounts to be paid by the Remaining Party.

5. Other Provisions: [[Additional Provisions relating to the New Transaction][Credit Support Documents relating to the New Transaction]]:

6. Miscellaneous Provisions: [Non-Reliance][ ]

7. Notice Details:

Telephone and/or Facsimile Numbers for Notices:
Transferee: [ ]
Remaining Party: [ ]

8. [The parties confirm their acceptance to be bound by this Novation Confirmation as of the Novation Date by executing a copy of this Novation Confirmation and returning it to us]. The Transferor, by its execution of a copy of this Novation Confirmation, agrees to the terms of the Novation Confirmation as it relates to each Old Transaction. The Transferee, by its execution of a copy of this Novation Confirmation, agrees to the terms of the Novation Confirmation as it relates to each New Transaction.].

9. The Remaining Party and the Transferee agree that, notwithstanding any provision in the Old Transaction to which this Novation Confirmation relates, all rights of the Remaining Party and the

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Transferor in respect of Floating Amounts and Additional Fixed Amounts that arose before the Novation Date shall be deemed to have been exercised and all obligations of such parties in respect of such events that have arisen or are deemed to have arisen shall be deemed to have been satisfied in full, in each case solely for the purposes of determining the rights and obligations of the Remaining Party and the Transferee under the New Transaction. Nothing in this paragraph shall affect the rights or obligations of the Remaining Party or the Transferor under the Old Transaction.

.....	.....
(Name of Remaining Party)	(Name of Transferor)
By:	By: .....
Name:	Name:
Title:	Title:
Date:	Date:

.....
(Name of Transferee)

By: .....
Name: .....
Title: .....
Date: .....

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Annex

1. Section 2(a) of the Novation Agreement shall be deemed to be amended as follows:

   (a) by the insertion of "(i)" after the words "with respect to" in the fifth line thereof; and

   (b) by the addition of the following at the end thereof:

   "and any rights or obligations arising in respect of Floating Amount Events or Additional Fixed Amount Events, in each case in respect of which the Remaining Party or the Transferor (each an "Original Party"), as applicable, had the right to deliver a notice pursuant to the terms of the Old Transaction but such notice was not delivered by that party or the Calculation Agent prior to the Novation Date (each an "Excluded Event") provided that the rights of the Original Parties to deliver a notice in respect of an Excluded Event pursuant to the Old Transaction shall expire on the 60thcalendar day following the Novation Date."

2. Section 2(b) of the Novation Agreement shall be deemed to be amended by the addition of the following after the words "Novation Date," in the last line thereof:

   "but excluding any rights or obligations in respect of Excluded Events,"

3. The definition of "Novated Amount" in Section 1.18 of the Definitions shall be replaced by the following definition of "Novated Percentage":

   ""Novated Percentage" means the portion of the Applicable Percentage of the Old Transaction that is the subject of the Novation Transaction. If the Novated Percentage is less than 100% of the Applicable Percentage of the Old Transaction, the Old Transaction shall remain in full force and effect but all future payments, deliveries and calculations thereunder shall be based on an Applicable Percentage that has been reduced by the relevant Novated Percentage."

   Each reference to "Novated Amount" in the Definitions and the Novation Agreement shall be deemed to be a reference to "Novated Percentage".

4. Section 2.1(a)(iii)(D)(I) of the Definitions shall not apply.

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SCHEDULE J

FORM OF CONFIRMATION FOR CDO SECURITIES

Deutsche Bank AG

Date:

To:

Attention:

Fax No.:

Our Reference:

RE: Credit Derivative Transaction on Collateralized Debt Obligation Security with Pay-As-You-Go or Physical Settlement (Dealer Form—adjusted for Gemstone CDO VII Ltd.)

Dear Sir/Madam:

The purpose of this letter (the **"Confirmation"**) is to confirm the terms and conditions of the Credit Derivative Transaction relating to a collateralized debt obligation security reference obligation entered into between Deutsche Bank AG, acting through its London Branch (**"Party A"**) and Gemstone CDO VII Ltd. (**"Party B"**) on the Trade Date specified below (the **"Transaction"**). This Confirmation constitutes a "Confirmation" as referred to in the ISDA Master Agreement specified below.

The definitions and provisions contained in the 2003 ISDA Credit Derivatives Definitions (the **"Credit Derivatives Definitions"**), as published by the International Swaps and Derivatives Association, Inc., are incorporated into this Confirmation. In the event of any inconsistency between the Credit Derivatives Definitions and this Confirmation, this Confirmation shall govern.

This Confirmation supplements, forms a part of, and is subject to, the ISDA Master Agreement, dated as of June 27, 2006, as amended and supplemented from time to time (the **"Agreement"**), between you and us. All provisions contained in the Agreement govern this Confirmation except as expressly modified below.

References in this Confirmation to the "Reference Obligation" shall be to the terms of the Reference Obligation (as defined below) set out in the Underlying Instruments (as defined below) as amended from time to time unless otherwise specified below.

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The terms of the Transaction to which this Confirmation relates are as follows:

1. General Terms:

Trade Date:	[●]
Effective Date:	[●]
Scheduled Termination Date:	Subject to paragraph 5, the Legal Final Maturity Date of the Reference Obligation, subject to adjustment in accordance with the Following Business Day Convention.
Termination Date:	The last to occur of: (a) the fifth Business Day following the Effective Maturity Date; (b) the last Floating Rate Payer Payment Date; (c) the last Delivery Date; and (d) the last Additional Fixed Amount Payment Date.
Floating Rate Payer:	[●] (the **"Seller"**).
Fixed Rate Payer:	[●] (the **"Buyer"**).
Calculation Agent:	Party A
Calculation Agent City:	New York
Business Day:	New York and London
Business Day Convention:	Following (which, with the exception of the Effective Date, the Final Amortization Date, each Reference Obligation Payment Date and the period end date of each Reference Obligation Calculation Period, shall apply to any date referred to in this Confirmation that falls on a day that is not a Business Day).
Reference Entity:	[●]
Reference Obligation:	The obligation identified as follows: Issuer: The Reference Entity Insurer: [●] CUSIP/ISIN: [●] Bloomberg ID: [●] Legal final maturity date: [●] Original Principal Amount: [●] Initial Factor: [●] Coupon: [●]

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	Section 2.30 of the Credit Derivatives Definitions shall not apply.
Reference Policy:	Not Applicable
Reference Price:	100%
Applicable Percentage:	On any day, a percentage equal to A *divided* by B. "A" means the product of the Initial Face Amount and the Initial Factor as decreased on each Delivery Date by an amount equal to (a) the outstanding principal balance of Deliverable Obligations Delivered to Seller (as adjusted by the Relevant Amount, if any) *divided* by the Current Factor on such day *multiplied* by (b) the Initial Factor. "B" means the product of the Original Principal Amount and the Initial Factor; (a) as increased by the outstanding principal balance of any further issues by the Reference Entity that are fungible with and form part of the same legal series as the Reference Obligation; and (b) as decreased by any cancellations of some or all of the Outstanding Principal Amount resulting from purchases of the Reference Obligation by or on behalf of the Reference Entity.
Initial Face Amount:	[●]
Reference Obligation Notional Amount:	On the Effective Date, the product of: (a) the Original Principal Amount; (b) the Initial Factor; and (c) the Applicable Percentage. Following the Effective Date, the Reference Obligation Notional Amount will be: (i) decreased on each day on which a Principal Payment is made by the relevant Principal Payment Amount; (ii) decreased on the day, if any, on which a Failure to Pay Principal occurs by the relevant Principal Shortfall Amount;

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(iii) decreased on each day on which a Writedown occurs by the relevant Writedown Amount;

(iv) increased on each day on which a Writedown Reimbursement occurs by any Writedown Reimbursement Amount in respect of a Writedown Reimbursement within paragraphs (ii) or (iii) of the definition of "Writedown Reimbursement"; and

(v) decreased on each Delivery Date by an amount equal to the relevant Exercise Amount *minus* the amount determined pursuant to paragraph (b) of "Physical Settlement Amount" below, provided that if any Relevant Amount is applicable, the Exercise Amount will also be deemed to be decreased by such Relevant Amount (or increased by the absolute value of such Relevant Amount if such Relevant Amount is negative) with effect from such Delivery Date;

provided that if the Reference Obligation Notional Amount would be less than zero, it shall be deemed to be zero.

For the avoidance of doubt, the Reference Obligation Notional Amount shall not be increased by any deferral or capitalization of interest during the Term of this Transaction or decreased by payment of any portion of the principal balance of the Reference Obligation that is attributable to deferral or capitalization of interest during the Term of this Transaction.

Initial Payment: [Not applicable]

[On [the Effective Date], [Buyer]/[Seller] will pay [USD][ ] to [Seller]/[Buyer].]

2. Fixed Payments:

Fixed Rate Payer: Buyer

Fixed Rate: [●]% *per annum*; subject to adjustment in accordance with paragraph 5 below.

Fixed Rate Payer Period End Date: The first day of each Reference Obligation Calculation Period.

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Fixed Rate Payer Payment Dates:	Each day falling five Business Days after a Reference Obligation Payment Date; *provided* that the final Fixed Rate Payer Payment Date shall fall on the fifth Business Day following the Effective Maturity Date.
Fixed Amount:	With respect to any Fixed Rate Payer Payment Date, an amount equal to the product of: (a) the Fixed Rate; (b) an amount determined by the Calculation Agent equal to: (i) the sum of the Reference Obligation Notional Amount as at 5:00 p.m. in the Calculation Agent City on each day in the related Fixed Rate Payer Calculation Period; *divided* by (ii) the actual number of days in the related Fixed Rate Payer Calculation Period; and (c) the actual number of days in the related Fixed Rate Payer Calculation Period *divided* by 360.
Additional Fixed Amount Payment Dates:	(a) Each Fixed Rate Payer Payment Date; and (b) in relation to each Additional Fixed Payment Event occurring after the second Business Day prior to the last Fixed Rate Payer Payment Date, the fifth Business Day after Buyer has received notification from Seller or the Calculation Agent of the occurrence of such Additional Fixed Payment Event.

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Additional Fixed Payments:	Following the occurrence of an Additional Fixed Payment Event in respect of the Reference Obligation, Buyer shall pay the relevant Additional Fixed Amount to Seller on the first Additional Fixed Amount Payment Date falling at least two Business Days (or in the case of an Additional Fixed Payment Event that occurs after the second Business Day prior to the last Fixed Rate Payer Payment Date, five Business Days) after the delivery of a notice by the Calculation Agent to the parties or by Seller to Buyer stating that the related Additional Fixed Amount is due and showing in reasonable detail how such Additional Fixed Amount was determined; provided that any such notice must be given on or prior to the fifth Business Day following the day that is one calendar year after the Effective Maturity Date; provided, however that if this Transaction is terminated as a result of the occurrence of an Early Termination Date (as defined in the Agreement) other than in respect of a Termination Event or Event of Default where the Seller is the Defaulting Party or sole Affected Party, the day that is (x) one calendar year after such Early Termination Date if the Reference Obligation is undercollateralized by more than 25% on such Early Termination Date, or (y) three calendar years after such Early Termination Date if the Reference Obligation is not undercollateralized by more than 25% on such Early Termination Date.
Additional Fixed Payment Event:	The occurrence on or after the Effective Date and on or before the day that is one calendar year after the Effective Maturity Date of a Writedown Reimbursement, a Principal Shortfall Reimbursement or an Interest Shortfall Reimbursement (or, if this Transaction is terminated as a result of the occurrence of an Early Termination Date (as defined in the Agreement) other than in respect of a Termination Event or Event of Default where the Seller is the Defaulting Party or sole Affected Party, the day that is (x) one calendar year after such Early Termination Date if the Reference Obligation is undercollateralized by more than 25% on such Early Termination Date, or (y) three calendar years after such Early Termination Date if the Reference Obligation is not undercollateralized by more than 25% on such Early Termination Date.
Additional Fixed Amount:	With respect to each Additional Fixed Amount Payment Date, an amount equal to the sum of: (a) the Writedown Reimbursement Payment Amount (if any);

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(b) the Principal Shortfall Reimbursement Payment Amount (if any); and

(c) the Interest Shortfall Reimbursement Payment Amount (if any).

For the avoidance of doubt, each Writedown Reimbursement Payment Amount, Principal Shortfall Reimbursement Payment Amount or Interest Shortfall Reimbursement Payment Amount (as applicable) shall be calculated using the Applicable Percentage which takes into account the aggregate adjustment made to the Applicable Percentage in respect of all Delivery Dates that have occurred prior to the date of such calculation.

3. Floating Payments:

Floating Rate Payer:	Seller
Floating Rate Payer Payment Dates:	In relation to a Floating Amount Event, the first Fixed Rate Payer Payment Date falling at least two Business Days (or in the case of a Floating Amount Event that occurs on the Legal Final Maturity Date or the Final Amortization Date, the fifth Business Day) after delivery of a notice by the Calculation Agent to the parties or a notice by Buyer to Seller that the related Floating Amount is due and showing in reasonable detail how such Floating Amount was determined; *provided* that any such notice must be given on or prior to the fifth Business Day following the Effective Maturity Date.
Floating Payments:	If a Floating Amount Event occurs, then on the relevant Floating Rate Payer Payment Date, Seller will pay the relevant Floating Amount to Buyer. For the avoidance of doubt, the Conditions to Settlement are not required to be satisfied in respect of a Floating Payment.
Implied Writedown:	Not Applicable
Floating Amount Event:	A Writedown, a Failure to Pay Principal or an Interest Shortfall.
Floating Amount:	With respect to each Floating Rate Payer Payment Date, an amount equal to the sum of: (a) the relevant Writedown Amount (if any); (b) the relevant Principal Shortfall Amount (if any); and

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(c) the relevant Interest Shortfall Payment Amount (if any).

For the avoidance of doubt, each Writedown Amount, Principal Shortfall Amount or Interest Shortfall Payment Amount (as applicable) shall be calculated using the Applicable Percentage which takes into account the aggregate adjustment made to the Applicable Percentage in respect of all Delivery Dates that have occurred prior to the date of such calculation.

Conditions to Settlement: Credit Event Notice

Notifying Party: Buyer

Notice of Physical Settlement

Notice of Publicly Available Information: Applicable

Public Sources: The public sources listed in Section 3.7 of the Credit Derivatives Definitions; provided that Servicer Reports in respect of the Reference Obligation and, in respect of a Distressed Ratings Downgrade Credit Event only, any public communications by any of the Rating Agencies in respect of the Reference Obligation shall also be deemed Public Sources.

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provided that if the Calculation Agent has previously delivered a notice to the parties or Buyer has previously delivered a notice to Seller pursuant to the definition of "Floating Rate Payer Payment Dates" above in respect of a Writedown or a Failure to Pay Principal, the only Conditions to Settlement with respect to any Credit Event shall be a Notice of Physical Settlement and, in relation to the Failure to Pay Interest Credit Event, the Additional Condition to Settlement specified below.

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Additional Condition to Settlement for Failure to Pay Interest:	In addition to the Conditions to Settlement above, in respect of the Failure to Pay Interest Credit Event, if the Reference Obligation is PIK-able, it shall be a Condition to Settlement that a period of at least 360 calendar days has elapsed since the occurrence of the Credit Event without the relevant Interest Shortfall having been reimbursed in full. For the avoidance of doubt, if it is not explicitly made clear in the Servicer Report whether or not, or to what extent, a particular Interest Shortfall has been reimbursed but the Calculation Agent determines that such Interest Shortfall has been reimbursed by a certain amount on the basis of information in such Servicer Report, then the relevant Interest Shortfall reimbursement shall be calculated by the Calculation Agent on the basis of such information.
Additional agreements relating to Physical Settlement:	The parties agree that with respect to the Transaction and notwithstanding anything to the contrary in the Credit Derivatives Definitions: (a) the Conditions to Settlement may be satisfied on more than one occasion; (b) multiple Physical Settlement Amounts may be payable by Seller; (c) Buyer, when providing a Notice of Physical Settlement, must specify an Exercise Amount and an Exercise Percentage; (d) if Buyer has delivered a Notice of Physical Settlement that specifies an Exercise Amount that is less than the Reference Obligation Notional Amount as of the date on which such Notice of Physical Settlement is delivered (calculated as though Physical Settlement in respect of all previously delivered Notices of Physical Settlement has occurred in full), the rights and obligations of the parties under the Transaction shall continue and Buyer may deliver additional Notices of Physical Settlement with respect to the initial Credit Event or with respect to any additional Credit Event at any time thereafter; and (e) any Notice of Physical Settlement shall be delivered no later than 30 calendar days after the fifth Business Day following the Effective Maturity Date.

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		Section 3.2(d) of the Credit Derivatives Definitions is amended to delete the words "that is effective no later than thirty calendar days after the Event Determination Date".
	Credit Events:	The following Credit Events shall apply to this Transaction (and the first sentence of Section 4.1 of the Credit Derivatives Definitions shall be amended accordingly): Failure to Pay Principal Writedown Failure to Pay Interest Payment Requirement: USD 10,000 Distressed Ratings Downgrade The definition of "Payment Requirement" in Section 4.8(d) of the Credit Derivatives Definitions shall be amended so that the words "Failure to Pay" are deleted and replaced by the words "Failure to Pay Interest".
	Obligation:	Reference Obligation Only
4.	**Interest Shortfall:**	
	Interest Shortfall Payment Amount:	In respect of an Interest Shortfall, the relevant Interest Shortfall Amount; provided that, if Interest Shortfall Cap is applicable and the Interest Shortfall Amount exceeds the Interest Shortfall Cap Amount, the Interest Shortfall Payment Amount in respect of such Interest Shortfall shall be the Interest Shortfall Cap Amount.
	Interest Shortfall Cap:	Applicable
	Interest Shortfall Cap Amount:	As set out in the Interest Shortfall Cap Annex.
	Actual Interest Amount:	With respect to any Reference Obligation Payment Date, payment by or on behalf of the Issuer of an amount in respect of interest due under the Reference Obligation (including, without limitation, any deferred interest or defaulted interest relating to the Term of this Transaction but excluding payments in respect of prepayment penalties, yield maintenance provisions or principal, except that the Actual Interest Amount shall include any payment of principal representing capitalized interest) to the holder(s) of the Reference Obligation in respect of the Reference Obligation.

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Expected Interest Amount:	With respect to any Reference Obligation Payment Date, the amount of current interest that would accrue during the related Reference Obligation Calculation Period calculated using the Reference Obligation Coupon on a principal balance of the Reference Obligation equal to: (a) the Outstanding Principal Amount taking into account any reductions due to a principal deficiency balance or realized loss amount (however described in the Underlying Instruments) that are attributable to the Reference Obligation; *minus* (b) the Aggregate Implied Writedown Amount (if any), and that will be payable on the related Reference Obligation Payment Date assuming for this purpose that sufficient funds are available therefor in accordance with the Underlying Instruments. Except as provided in (a) in the previous sentence, the Expected Interest Amount shall be determined without regard to (i) unpaid amounts in respect of accrued interest on prior Reference Obligation Payment Dates; (ii) any prepayment penalties or yield maintenance provisions; and (iii) the effect of any provisions (however described) of such Underlying Instruments that otherwise permit the limitation of due payments to distributions of funds available from proceeds of the Underlying Assets, or that provide for the capitalization or deferral of interest on the Reference Obligation, or that provide for the extinguishing or reduction of such payments or distributions (but, for the avoidance of doubt, taking account of any Writedown within paragraph (i) of the definition of "Writedown" occurring in accordance with the Underlying Instruments).
Interest Shortfall:	With respect to any Reference Obligation Payment Date, either (a) the non-payment of an Expected Interest Amount or (b) the payment of an Actual Interest Amount that is less than the Expected Interest Amount. For the avoidance of doubt, the occurrence of an event within (a) or (b) shall be determined taking into account any payment made under the Reference Policy, if applicable.
Interest Shortfall Amount:	With respect to any Reference Obligation Payment Date, an amount equal to the greater of:

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(a) zero; and

(b) the amount equal to the product of:

(i) (A) the Expected Interest Amount;

minus

(B) the Actual Interest Amount; and

(ii) the Applicable Percentage;

provided that, with respect to the first Reference Obligation Payment Date only, the Interest Shortfall Amount shall be the amount determined in accordance with (a) and (b) above *multiplied* by a fraction equal to:

(x) the number of days in the first Fixed Rate Payer Calculation Period; over

(y) the number of days in the first Reference Obligation Calculation Period.

Interest Shortfall Reimbursement:	With respect to any Reference Obligation Payment Date, the payment by or on behalf of the Issuer of an Actual Interest Amount in respect of the Reference Obligation that is greater than the Expected Interest Amount.
Interest Shortfall Reimbursement Amount:	With respect to any Reference Obligation Payment Date, the product of (a) the amount of any Interest Shortfall Reimbursement on such day and (b) the Applicable Percentage.
Interest Shortfall Reimbursement Payment Amount:	With respect to an Additional Fixed Amount Payment Date, (a) if Interest Shortfall Cap is not applicable, the relevant Interest Shortfall Reimbursement Amount, and (b) if Interest Shortfall Cap is applicable, the amount determined pursuant to the Interest Shortfall Cap Annex; provided, in either case, that the aggregate of all Interest Shortfall Reimbursement Payment Amounts (determined for this purpose on the basis that Interest Shortfall Compounding is not applicable) at any time shall not exceed the aggregate of Interest Shortfall Payment Amounts paid by Seller in respect of Interest Shortfalls occurring prior to such Additional Fixed Amount Payment Date.

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5. Settlement Terms:

Settlement Method:	Physical Settlement
Terms Relating to Physical Settlement:	
Physical Settlement Period:	Five Business Days
Deliverable Obligations:	Exclude Accrued Interest
Deliverable Obligations:	Deliverable Obligation Category: Reference Obligation Only
Physical Settlement Amount:	An amount equal to: (a) the product of the Exercise Amount and the Reference Price; *minus* (b) the sum of: (i) if the Aggregate Implied Writedown Amount is greater than zero, the product of (A) the Aggregate Implied Writedown Amount, (B) the Applicable Percentage, each as determined immediately prior to the relevant Delivery and (C) the relevant Exercise Percentage; and (ii) the product of (A) the aggregate of all Writedown Amounts in respect of Writedowns within paragraph (i)(B) of the definition of "Writedown" *minus* the aggregate of all Writedown Reimbursement Amounts in respect of Writedown Reimbursements within paragraph (ii)(B) of the definition of "Writedown Reimbursement" and (B) the relevant Exercise Percentage, *provided* that if the Physical Settlement Amount would exceed the product of: (1) the Reference Obligation Notional Amount as of the date on which the relevant Notice of Physical Settlement is delivered calculated as though Physical Settlement in respect of all previously delivered Notices of Physical Settlement has occurred in full; and (2) the Exercise Percentage;

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	then the Physical Settlement Amount shall be deemed to be equal to such product.
Delayed Payment:	With respect to a Delivery Date, if a Servicer Report that describes a Delayed Payment is delivered to holders of the Reference Obligation or to the Calculation Agent on or after such Delivery Date, Buyer will pay the applicable Delayed Payment Amount to Seller no later than five Business Days following the receipt of such Servicer Report.
Escrow:	Applicable
Non-delivery by Buyer or occurrence of the Effective Maturity Date:	If Buyer has delivered a Notice of Physical Settlement and: (a) Buyer does not Deliver in full the Deliverable Obligations specified in that Notice of Physical Settlement on or prior to the Physical Settlement Date; or (b) the Effective Maturity Date occurs after delivery of the Notice of Physical Settlement but before Buyer Delivers the Deliverable Obligations specified in that Notice of Physical Settlement; then such Notice of Physical Settlement shall be deemed not to have been delivered and any reference in this Confirmation to a previously delivered Notice of Physical Settlement shall exclude any Notice of Physical Settlement that is deemed not to have been delivered. Sections 9.2(c)(ii) (except for the first sentence thereof), 9.3, 9.4, 9.5, 9.6, 9.9 and 9.10 of the Credit Derivatives Definitions shall not apply.

6. Additional Provisions:

(a) *Delivery of Servicer Report*

If either party makes a request in writing, the Calculation Agent agrees to provide such party with a copy of the most recent Servicer Report promptly following receipt of such request, if and to the extent such Servicer Report is reasonably available to the Calculation Agent (whether or not the Calculation Agent is a holder of the Reference Obligation). In addition, if a Floating Payment or an Additional Fixed Payment is due hereunder, then the Calculation Agent or the party that notifies the other party that the relevant Floating Payment or Additional Fixed Payment is due, as applicable, (the **"Notifying Party"**) shall deliver a copy of any Servicer Report relevant to such payment that is requested by the party that is not the Notifying Party or by either party where the Notifying Party is the Calculation Agent, if and to the extent that such Servicer Report is reasonably available to the Notifying Party (whether or not the Notifying Party is a holder of the Reference Obligation).

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(b) *Calculation Agent and Buyer and Seller Determinations*

The Calculation Agent shall be responsible for determining and calculating (i) the Fixed Amount payable on each Fixed Rate Payer Payment Date; (ii) the occurrence of a Floating Amount Event and the related Floating Amount and (iii) the occurrence of an Additional Fixed Payment Event and the related Additional Fixed Amount; provided that notwithstanding the above, each of Buyer and Seller shall be entitled to determine and calculate the above amounts to the extent that Buyer or Seller, as applicable, has the right to deliver a notice to the other party demanding payment of such amount. The Calculation Agent or Buyer or Seller, as applicable, shall make such determinations and calculations based solely on the basis of the Servicer Reports, to the extent such Servicer Reports are reasonably available to the Calculation Agent or such party. The Calculation Agent or Buyer or Seller, as applicable, shall, as soon as practicable after making any of the determinations or calculations specified in (i) and (ii) above, notify the parties or the other party, as applicable, of such determinations and calculations. For the avoidance of doubt, if an Interest Shortfall Amount is not explicitly set out in the Servicer Report but the Calculation Agent determines that an Interest Shortfall has occurred on the basis of information in such Servicer Report, then the relevant Interest Shortfall Amount shall be calculated by the Calculation Agent on the basis of such information.

(c) *Adjustment of Calculation Agent Determinations*

To the extent that a Servicer furnishes any Servicer Reports correcting information contained in previously issued Servicer Reports, and such corrections impact calculations pursuant to this Transaction, the calculations relevant to the Transaction shall be adjusted retroactively by the Calculation Agent to reflect the corrected information (provided that, for the avoidance of doubt, no amounts in respect of interest shall be payable by either party and provided that the Calculation Agent in performing the calculations pursuant to this paragraph will assume that no interest has accrued on any adjusted amount), and the Calculation Agent shall promptly notify both parties of any corrected payments required by either party. Any required corrected payments shall be made within five Business Days of the day on which such notification by the Calculation Agent is effective.

7. Offices:

The Office of Seller for this Transaction is George Town, Grand Cayman, Cayman Islands.

The Office of Buyer for this Transaction is London.

8. Notice and Account Details:

Telephone, Telex and/or
Facsimile Numbers and
Contact Details for Notices:

Party A: Deutsche Bank AG, London
Winchester House
1 Great Winchester Street
London EC2N 2DB
Attention:
Telephone: +1 212 250 7730

Party B: Gemstone CDO VII Ltd.
[]
Attention: []
Facsimile: []

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With a copy to:

HBK Investments, L.P.
[]

Attention: []
Facsimile: []

Account Details:

Account Details of Party A: []
Swift BIC Code: []
Account No: []
Fed ABA No: []
CHIPS ABA No: []
CHIPS UID No: []
Favour []

Account Details of Party B: []
Account No: []
Fed ABA No: []
Benef Name: []
Benef Address: []
FC: []
OBI: []

9. Additional Definitions and Amendments to the Credit Derivatives Definitions:

(a) References in Sections 4.1, 8.2, 9.1 and 9.2(a) of the Credit Derivatives Definitions as well as Section 3(a)(iv) of the form of Novation Agreement set forth in Exhibit E to the Credit Derivatives Definitions to the Reference Entity shall be deemed to be references to both the Reference Entity and the Insurer in respect of the Reference Policy, if applicable.

(b) (i) The definition of "Publicly Available Information" in Section 3.5 of the Credit Derivatives Definitions shall be amended by (i) inserting the words "the Insurer in respect of the Reference Policy, if applicable" at the end of subparagraph (a)(ii)(A) thereof, (ii) inserting the words ", servicer, sub-servicer, master servicer" before the words "or paying agent" in subparagraph (a)(ii)(B) thereof and (iii) deleting the word "or" at the end of subparagraph (a)(iii) thereof and inserting at the end of subparagraph (a)(iv) thereof the following: "or (v) is information contained in a notice or on a website published by an internationally recognized rating agency that has at any time rated the Reference Obligation".

(ii) The definition of "Physical Settlement" in Section 8.1 of the Credit Derivatives Definitions shall be amended by (i) deleting the words "Physical Settlement Amount" from the last line of the second paragraph thereof and (ii) inserting in lieu thereof the words "Exercise Amount".

(iii) The definition of "Physical Settlement Date" in Section 8.4 of the Credit Derivatives Definitions shall be amended by deleting the last sentence thereof.

(c) For the purposes of this Transaction only, the following terms have the meanings given below:

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"Actual Principal Amount" means, with respect to the Final Amortization Date or the Legal Final Maturity Date, an amount paid on such day by or on behalf of the Issuer in respect of principal (excluding any capitalized interest) to the holder(s) of the Reference Obligation in respect of the Reference Obligation.

"Aggregate Implied Writedown Amount" means the greater of (i) zero and (ii) the aggregate of all Implied Writedown Amounts *minus* the aggregate of all Implied Writedown Reimbursement Amounts, *provided* that if Implied Writedown is not applicable, the Aggregate Implied Writedown Amount shall be deemed to be zero.

"Current Factor" means the factor of the Reference Obligation as specified in the most recent Servicer Report; *provided* that if the factor is not specified in the most recent Servicer Report or such specified factor includes deferred or capitalized interest relating to the Term of this Transaction, then the Current Factor shall be the ratio equal to (i) the Outstanding Principal Amount as of such date, determined in accordance with the most recent Servicer Report over (ii) the Original Principal Amount.

"Current Period Implied Writedown Amount" means, in respect of a Reference Obligation Calculation Period, an amount determined as of the last day of such Reference Obligation Calculation Period equal to the greater of:

(i) zero; and

(ii) the product of:

(A) the Implied Writedown Percentage; and

(B) the greater of:

(1) zero; and

(2) the lesser of (x) the Pari Passu Amount and (y) the product of (I) the Pari Passu Amount plus the Senior Amount and (II) an amount equal to one *minus* the Overcollateralization Ratio.

"Delayed Payment" means, with respect to a Delivery Date, a Principal Payment, Principal Shortfall Reimbursement or a Writedown Reimbursement within paragraph (i) of the definition of "Writedown Reimbursement" that is described in a Servicer Report delivered to holders of the Reference Obligation or to the Calculation Agent on or after such Delivery Date.

"Delayed Payment Amount" means, if persons who are holders of the Reference Obligation as of a date prior to a Delivery Date are paid a Delayed Payment on or after such Delivery Date, an amount equal to the product of (i) the sum of all such Delayed Payments, (ii) the Reference Price, (iii) the Applicable Percentage immediately prior to such Delivery Date and (iv) the Exercise Percentage.

"Distressed Ratings Downgrade" means that the Reference Obligation:

(i) if publicly rated by Moody's, (A) is downgraded to "Caa2" or below by Moody's or (B) has the rating assigned to it by Moody's withdrawn and, in either case, not reinstated within five Business Days of such downgrade or withdrawal; provided that if such Reference Obligation was assigned a public rating of "Baa3" or higher by Moody's immediately prior to the occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "Caa1" by Moody's within three calendar months 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

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reinstated within five Business Days of such downgrade or withdrawal; provided that if such Reference Obligation was assigned a public rating of "BBB-" or higher by Standard & Poor's immediately prior to the occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "CCC+" by Standard & Poor's within three calendar months 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 shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "CCC+" by Fitch within three calendar months after such withdrawal.

"Effective Maturity Date" means the earlier of (a) the Scheduled Termination Date and (b) the Final Amortization Date.

"Exercise Amount" means, for purposes of the Transaction, an amount to which a Notice of Physical Settlement relates equal to the product of (i) the original face amount of the Reference Obligation to be Delivered by Buyer to Seller on the applicable Physical Settlement Date; and (ii) the Current Factor as of such date. The Exercise Amount to which a Notice of Physical Settlement relates shall (A) be equal to or less than the Reference Obligation Notional Amount (determined, for this purpose, without regard to the effect of any Writedown or Writedown Reimbursement within paragraphs (i)(B) or (iii) of "Writedown" or paragraphs (ii)(B) or (iii) of "Writedown Reimbursement", respectively) as of the date on which the relevant Notice of Physical Settlement is delivered calculated as though the Physical Settlement of all previously delivered Notices of Physical Settlement has occurred in full and (B) not be less than the lesser of (1) the Reference Obligation Notional Amount as of the date on which the relevant Notice of Physical Settlement is delivered calculated as though Physical Settlement in respect of all previously delivered Notices of Physical Settlement has occurred in full and (2) USD100,000. The cumulative original face amount of Deliverable Obligations specified in all Notices of Physical Settlement shall not at any time exceed the Initial Face Amount. For the avoidance of doubt: (a) if any capitalization of interest in respect of the Reference Obligation occurred during the Term of this Transaction and has not been recovered by holders of the Reference Obligation pursuant to the terms of the Underlying Instruments, then, for the purposes of determining the amount of Deliverable Obligations to be Delivered, the Exercise Amount (determined above by reference to the original face amount) will represent an outstanding principal balance of the Reference Obligation to be Delivered by Buyer that includes the proportion of unrecovered interest attributable to the Reference Obligation to be Delivered and (b) notwithstanding the foregoing, the Physical Settlement Amount payable by Seller in relation to such Exercise Amount shall not include any amount in respect of such unrecovered interest.

"Exercise Percentage" means, with respect to a Notice of Physical Settlement, a percentage equal to the original face amount of the Deliverable Obligations specified in such Notice of Physical Settlement *divided* by an amount equal to (i) the Initial Face Amount *minus* (ii) the aggregate of the original face amount of all Deliverable Obligations specified in all previously delivered Notices of Physical Settlement.

"Expected Principal Amount" means, with respect to the Final Amortization Date or the Legal Final Maturity Date, an amount equal to (i) the Outstanding Principal Amount of the Reference Obligation payable on such day (excluding capitalized interest) assuming for this purpose that sufficient funds are available for such payment, where such amount shall be determined in accordance with the Underlying Instruments, *minus* (ii) the sum of (A) the Aggregate Implied Writedown Amount (if any) and (B) the net aggregate principal deficiency balance or realized loss amounts (however described in the Underlying Instruments) that are attributable to the Reference Obligation. The Expected Principal Amount shall be determined without regard to the effect of any provisions (however described) of the Underlying Instruments that permit the limitation of due payments or distributions of funds in accordance with the terms of such Reference Obligation or that provide for the extinguishing or reduction of such payments or distributions.

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"Failure to Pay Interest" means the occurrence of an Interest Shortfall Amount or Interest Shortfall Amounts (calculated on a cumulative basis) in excess of the relevant Payment Requirement.

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

"Final Amortization Date" means the first to occur of (i) the date on which the Reference Obligation Notional Amount is reduced to zero and (ii) the date on which the assets securing the Reference Obligation or designated to fund amounts due in respect of the Reference Obligation are liquidated, distributed or otherwise disposed of in full and the proceeds thereof are distributed or otherwise disposed of in full.

"Fitch" means Fitch Ratings or any successor to its rating business.

"Implied Writedown Amount" means, (i) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) of the definition of "Writedown" to occur in respect of the Reference Obligation, on any Reference Obligation Payment Date, an amount determined by the Calculation Agent equal to the excess, if any, of the Current Period Implied Writedown Amount over the Previous Period Implied Writedown Amount, in each case in respect of the Reference Obligation Calculation Period to which such Reference Obligation Payment Date relates, and (ii) in any other case, zero.

"Implied Writedown Percentage" means (i) the Outstanding Principal Amount *divided* by (ii) the Pari Passu Amount.

"Implied Writedown Reimbursement Amount" means, (i) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) of the definition of "Writedown" to occur in respect of the Reference Obligation, on any Reference Obligation Payment Date, an amount determined by the Calculation Agent equal to the excess, if any, of the Previous Period Implied Writedown Amount over the Current Period Implied Writedown Amount, in each case in respect of the Reference Obligation Calculation Period to which such Reference Obligation Payment Date relates, and (ii) in any other case, zero, provided that the aggregate of all Implied Writedown Reimbursement Amounts at any time shall not exceed the product of the Pari Passu Amount and the Implied Writedown Percentage.

"Legal Final Maturity Date" means the date set out in paragraph 1 above (subject, for the avoidance of doubt, to any business day convention applicable to the legal final maturity date of the Reference Obligation), *provided* that if the legal final maturity date of the Reference Obligation is amended, the Legal Final Maturity Date shall be such date as amended.

"Moody's" means Moody's Investors Service, Inc. or any successor to its rating business.

"Outstanding Principal Amount" means, as of any date of determination with respect to the Reference Obligation, the outstanding principal balance of the Reference Obligation as of such date, which shall take into account:

(i) all payments of principal;

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(ii) all writedowns or applied losses (however described in the Underlying Instruments) resulting in a reduction in the outstanding principal balance of the Reference Obligation (other than as a result of a scheduled or unscheduled payment of principal);

(iii) forgiveness of any amount by the holders of the Reference Obligation pursuant to an amendment to the Underlying Instruments resulting in a reduction in the outstanding principal balance of the Reference Obligation;

(iv) any payments reducing the amount of any reductions described in (ii) and (iii) of this definition; and

(v) any increase in the outstanding principal balance of the Reference Obligation that reflects a reversal of any prior reductions described in (ii) and (iii) of this definition.

For the avoidance of doubt, the Outstanding Principal Amount shall not include any portion of the outstanding principal balance of the Reference Obligation that is attributable to the deferral or capitalization of interest during the Term of this Transaction.

"Overcollateralization Ratio" means, in respect of a Reference Obligation Calculation Period:

(i) if the most recent Servicer Report sets out a ratio representing the ratio of (A) the aggregate asset pool balance securing the payment obligations on the Reference Obligation (subject to certain adjustments as described in the Underlying Instruments) to (B) the Pari Passu Amount plus the Senior Amount, then such ratio; or

(ii) if the ratio cannot be determined under (i) but the most recent Servicer Report for one or more senior Related Obligations (if any) sets out such a ratio, then a ratio equal to the ratio of (A) the product of (1) such ratio determined with respect to the senior Related Obligation ranking closest in priority of payment to the Reference Obligation for which such a ratio is set out, and (2) the aggregate outstanding principal balance of such Related Obligation and any other Related Obligations ranking in priority of payment either *pari passu* with or senior to such Related Obligation to (B) the sum of the Pari Passu Amount plus the Senior Amount with respect to such Reference Obligation; or

(iii) if the ratio cannot be determined under (ii) but the most recent Servicer Report for one or more junior Related Obligations (if any) sets out such a ratio, then a ratio equal to the ratio of (A) the product of (1) such ratio determined with respect to the junior Related Obligation ranking closest in priority of payment to the Reference Obligation for which such a ratio is set out, and (2) the aggregate outstanding principal balance of such Related Obligation and any other Related Obligations ranking in priority of payment either *pari passu* with or senior to such Related Obligation (including the Reference Obligation) and (B) the sum of the Pari Passu Amount plus the Senior Amount with respect to such Reference Obligation; or

(iv) if the ratio cannot be determined under (iii), then a ratio representing the ratio of (A) the aggregate asset pool balance securing the payment obligations under the Reference Obligation to (B) the Pari Passu Amount plus the Senior Amount.

"Pari Passu Amount" means, as of any date of determination, the aggregate of the Outstanding Principal Amount of the Reference Obligation and the aggregate outstanding principal balance of all obligations of the Reference Entity secured by the Underlying Assets and ranking *pari passu* in priority with the Reference Obligation.

"PIK-able" means, in relation to a Reference Obligation, that the Underlying Instruments include provisions that provide for capitalization or deferral of interest on such Reference Obligation.

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"Previous Period Implied Writedown Amount" means, in respect of a Reference Obligation Calculation Period, the Current Period Implied Writedown Amount as determined in relation to the last day of the immediately preceding Reference Obligation Calculation Period.

"Principal Payment" means, with respect to any Reference Obligation Payment Date, the occurrence of a payment of an amount to the holders of the Reference Obligation in respect of principal (scheduled or unscheduled) in respect of the Reference Obligation other than a payment in respect of principal representing capitalized interest, excluding, for the avoidance of doubt, any Writedown Reimbursement or Interest Shortfall Reimbursement.

"Principal Payment Amount" means, with respect to any Reference Obligation Payment Date, an amount equal to the product of (i) the amount of any Principal Payment on such date and (ii) the Applicable Percentage.

"Principal Shortfall Amount" means, in respect of a Failure to Pay Principal, an amount equal to the greater of:

(i) zero; and

(ii) the amount equal to the product of:

(A) the Expected Principal Amount *minus* the Actual Principal Amount;

(B) the Applicable Percentage; and

(C) the Reference Price.

If the Principal Shortfall Amount would be greater than the Reference Obligation Notional Amount immediately prior to the occurrence of such Failure to Pay Principal, then the Principal Shortfall Amount shall be deemed to be equal to the Reference Obligation Notional Amount at such time.

"Principal Shortfall Reimbursement" means, with respect to any day, the payment by or on behalf of the Issuer of an amount in respect of the Reference Obligation in or toward the satisfaction of any deferral of or failure to pay principal arising from one or more prior occurrences of a Failure to Pay Principal.

"Principal Shortfall Reimbursement Amount" means, with respect to any day, the product of (i) the amount of any Principal Shortfall Reimbursement on such day, (ii) the Applicable Percentage and (iii) the Reference Price.

"Principal Shortfall Reimbursement Payment Amount" means, with respect to an Additional Fixed Amount Payment Date, the sum of the Principal Shortfall Reimbursement Amounts in respect of all Principal Shortfall Reimbursements (if any) made during the Reference Obligation Calculation Period relating to such Additional Fixed Amount Payment Date, provided that the aggregate of all Principal Shortfall Reimbursement Payment Amounts at any time shall not exceed the aggregate of all Floating Amounts paid by Seller in respect of occurrences of Failure to Pay Principal prior to such Additional Fixed Amount Payment Date.

"Rating Agencies" means Fitch, Moody's and Standard & Poor's.

"Reference Obligation Calculation Period" means, with respect to each Reference Obligation Payment Date, a period corresponding to the interest accrual period relating to such Reference Obligation Payment Date pursuant to the Underlying Instruments. For the avoidance of doubt, the first Reference Obligation Calculation Period will begin on the Reference Obligation Payment Date falling on or immediately prior to the Effective Date.

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"Reference Obligation Coupon" means the periodic interest rate applied in relation to each Reference Obligation Calculation Period on the related Reference Obligation Payment Date, as determined in accordance with the terms of the Underlying Instruments as at the Effective Date, without regard to any subsequent amendment.

"Reference Obligation Payment Date" means (i) each scheduled distribution date for the Reference Obligation occurring on or after the Effective Date and on or prior to the Scheduled Termination Date, determined in accordance with the Underlying Instruments and (ii) any day after the Effective Maturity Date on which a payment is made in respect of the Reference Obligation.

"Related Obligation" means, in relation to the Reference Obligation, an obligation of the Reference Entity that is also secured by the Underlying Assets but ranks senior or junior to the Reference Obligation in priority of payment. In relation to a Related Obligation, the terms "Servicer", "Servicer Report" and "Underlying Instruments" shall have the meanings set out in this Confirmation but with references in the definitions of those terms to "Reference Obligation" being deemed, solely for this purpose, to be references to the Related Obligation.

"Relevant Amount" means, if a Servicer Report that describes a Principal Payment, Writedown or Writedown Reimbursement (other than a Writedown Reimbursement within paragraph (i) of "Writedown Reimbursement"), in each case that has the effect of decreasing or increasing the interest-accruing principal balance of the Reference Obligation as of a date prior to a Delivery Date but such Servicer Report is delivered to holders of the Reference Obligation or to the Calculation Agent on or after such Delivery Date, an amount equal to the product of (i) the sum of any such Principal Payment (expressed as a positive amount), Writedown (expressed as a positive amount) or Writedown Reimbursement (expressed as a negative amount), as applicable; (ii) the Reference Price; (iii) the Applicable Percentage immediately prior to such Delivery Date; and (iv) the Exercise Percentage.

"Senior Amount" means, as of any day, the aggregate outstanding principal balance of all obligations of the Reference Entity secured by the Underlying Assets and ranking senior in priority to the Reference Obligation.

"Servicer" means any trustee, servicer, sub servicer, master servicer, fiscal agent, paying agent or other similar entity responsible for calculating payment amounts or providing reports in relation to the Reference Obligation pursuant to the Underlying Instruments.

"Servicer Report" means a periodic statement or report regarding the Reference Obligation provided by the Servicer to holders of the Reference Obligation.

"Standard & Poor's" means Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. or any successor to its rating business.

"Underlying Assets" means the assets securing the Reference Obligation for the benefit of the holders of the Reference Obligation and which are expected to generate the cashflows required for the servicing and repayment (in whole or in part) of the Reference Obligation, or the assets to which a holder of such Reference Obligation is economically exposed where such exposure is created synthetically.

"Underlying Instruments" means the indenture, trust agreement, pooling and servicing agreement or other relevant agreement(s) setting forth the terms of the Reference Obligation.

"Writedown" means the occurrence at any time on or after the Effective Date of:

(i) (A) a writedown or applied loss (however described in the Underlying Instruments) resulting in a reduction in the Outstanding Principal Amount (other than as a result of a scheduled or unscheduled payment of principal); or

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(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; or

(iii) if Implied Writedown is applicable and the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) above to occur in respect of the Reference Obligation, an Implied Writedown Amount being determined in respect of the Reference Obligation by the Calculation Agent.

"Writedown Amount" means, with respect to any day, the product of (i) the amount of any Writedown on such day, (ii) the Applicable Percentage and (iii) the Reference Price.

"Writedown Reimbursement" means, with respect to any day, the occurrence of:

(i) a payment by or on behalf of the Issuer of an amount in respect of the Reference Obligation in reduction of any prior Writedowns;

(ii) (A) an increase by or on behalf of the Issuer of the Outstanding Principal Amount of the Reference Obligation to reflect the reversal of any prior Writedowns; or

(B) a decrease in the principal deficiency balance or realized loss amounts (however described in the Underlying Instruments) attributable to the Reference Obligation; or

(iii) if Implied Writedown is applicable and the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (ii) above to occur in respect of the Reference Obligation, an Implied Writedown Reimbursement Amount being determined in respect of the Reference Obligation by the Calculation Agent.

"Writedown Reimbursement Amount" means, with respect to any day, an amount equal to the product of:

(i) the sum of all Writedown Reimbursements on that day;

(ii) the Applicable Percentage; and

(iii) the Reference Price.

"Writedown Reimbursement Payment Amount" means, with respect to an Additional Fixed Amount Payment Date, the sum of the Writedown Reimbursement Amounts in respect of all Writedown Reimbursements (if any) made during the Reference Obligation Calculation Period relating to such Additional Fixed Amount Payment Date, provided that the aggregate of all Writedown Reimbursement Payment Amounts at any time shall not exceed the aggregate of all Floating Amounts paid by Seller in respect of Writedowns occurring prior to such Additional Fixed Amount Payment Date.

10. Representations

Each party will be deemed to represent to the other party on the date on which it enters into the Transaction that (absent a written agreement between the parties that expressly imposes affirmative obligations to the contrary for the Transaction):

(a) *Non-Reliance*

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It is acting for its own account, and it has made its own independent decisions to enter into the Transaction and as to whether the Transaction is appropriate or proper for it based upon its own judgment and upon advice from such advisers as it has deemed necessary. It is not relying on any communication (written or oral) of the other party as investment advice or as a recommendation to enter into the Transaction; it being understood that information and explanations related to the terms and conditions of the Transaction shall not be considered investment advice or a recommendation to enter into the Transaction. No communication (written or oral) received from the other party shall be deemed to be an assurance or guarantee as to the expected results of the Transaction.

(b) *Assessment and Understanding*

It is capable of assessing the merits of and understanding (on its own behalf or through independent professional advice), and understands and accepts, the terms, conditions and risks of the Transaction. It is also capable of assuming, and assumes, the risks of the Transaction.

(c) *Status of Parties*

The other party is not acting as a fiduciary for, or an adviser to it in respect of the Transaction.

Please confirm your agreement to be bound by the terms of the foregoing by executing a copy of this Confirmation and returning it to us by facsimile to:

Attention:	New York Derivatives Documentation
Telephone:	(212) 250-9425
Fax:	(212) 797-0779
Email:	NYderivative.documentation@db.com

Deutsche Bank AG, acting through its London Branch is acting as principal in the Transaction. The time of transaction will be supplied on request. The time of exercise will be supplied on request. Details of arrangements with introducing brokers are available on request.

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This message will be the only form of Confirmation dispatched by us. Please execute and return it to us by facsimile immediately. If you wish to exchange hard copy forms of this Confirmation, please contact us.

Yours faithfully,

DEUTSCHE BANK AG, ACTING THROUGH ITS LONDON BRANCH

By: _____

Name: _____
Title: Authorized Signatory

By: _____

Name: _____
Title: Authorized Signatory

Confirmed as of the date first written above:

Gemstone CDO VIII Ltd.

By: _____

Name: _____

Title: _____

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Interest Shortfall Cap Annex

If Interest Shortfall Cap is applicable, then the following provisions will apply:

Interest Shortfall Cap Basis:	Variable Cap
Interest Shortfall Cap Amount:	If the Interest Shortfall Cap Basis is Fixed Cap, the Interest Shortfall Cap Amount in respect of an Interest Shortfall shall be the Fixed Amount calculated in respect of the Fixed Rate Payer Payment Date immediately following the Reference Obligation Payment Date on which the relevant Interest Shortfall occurred. If the Interest Shortfall Cap Basis is Variable Cap, the Interest Shortfall Cap Amount applicable in respect of a Floating Rate Payer Payment Date shall be an amount equal to the product of: (a) the sum of the Relevant Rate and the Fixed Rate applicable to the Fixed Rate Payer Calculation Period immediately preceding the Reference Obligation Payment Date on which the relevant Interest Shortfall occurs; (b) the amount determined by the Calculation Agent under sub-clause (b) of the definition of "Fixed Amount" in relation to the relevant Fixed Rate Payer Payment Date; and (c) the actual number of days in such Fixed Rate Payer Calculation Period *divided* by 360.
Interest Shortfall Compounding:	Applicable
Interest Shortfall Reimbursement Payment Amount:	If Interest Shortfall Cap is applicable, then with respect to the first Additional Fixed Amount Payment Date, zero, and with respect to any subsequent Additional Fixed Amount Payment Date and calculated as of the Reference Obligation Payment Date immediately preceding such Additional Fixed Amount Payment Date, as specified by the Calculation Agent in its notice to the parties or by Seller in its notice to Buyer of the existence of an Interest Shortfall Reimbursement, an amount equal to the greater of: (a) zero; and (b) the amount equal to: (i) the product of: (A) the Cumulative Interest Shortfall Payment Amount as of the Additional Fixed Amount Payment Date immediately preceding such Reference Obligation Payment Date; and (B) either:

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(1) if Interest Shortfall Compounding is applicable, the relevant Cumulative Interest Shortfall Payment Compounding Factor for the Fixed Rate Payer Calculation Period immediately preceding such Additional Fixed Amount Payment Date (or 1.0 in respect of any Additional Fixed Amount Payment Date occurring after the final Fixed Rate Payer Payment Date); or

(2) if Interest Shortfall Compounding is not applicable, 1;

minus

(ii) the Cumulative Interest Shortfall Amount as of such Reference Obligation Payment Date;

provided that if the Interest Shortfall Reimbursement Payment Amount on an Additional Fixed Amount Payment Date would exceed the Interest Shortfall Reimbursement Amount in respect of the related Reference Obligation Payment Date, then such Interest Shortfall Reimbursement Payment Amount shall be deemed to be equal to such Interest Shortfall Reimbursement Amount.

Cumulative Interest Shortfall Amount: With respect to any Reference Obligation Payment Date, an amount equal to the greater of:

(a) zero; and

(b) an amount equal to:

(i) the Cumulative Interest Shortfall Amount as of the Reference Obligation Payment Date immediately preceding such Reference Obligation Payment Date or, in the case of the first Reference Obligation Payment Date, zero; plus

(ii) the Interest Shortfall Amount (if any) in respect of such Reference Obligation Payment Date; plus

(iii) either:

(A) if Interest Shortfall Compounding is applicable, an amount determined by the Calculation Agent as the amount of interest that would accrue on the Cumulative Interest Shortfall Amount immediately preceding such Reference Obligation Payment Date during the related Reference Obligation Calculation

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Period pursuant to the Underlying Instruments or, in the case of the first Reference Obligation Payment Date, *zero*; or

(B) if Interest Shortfall Compounding is not applicable, 0; *minus*

(iv) the Interest Shortfall Reimbursement Amount (if any) in respect of such Reference Obligation Payment Date.

Upon the occurrence of each Delivery, the Cumulative Interest Shortfall Amount shall be multiplied by a fraction equal to (a) the Applicable Percentage immediately following such Delivery *divided* by (b) the Applicable Percentage immediately prior to such Delivery; *provided, however*, that if more than one Delivery is made during a Reference Obligation Calculation Period, the Cumulative Interest Shortfall Amount calculated as of the Reference Obligation Payment Date occurring immediately after such Reference Obligation Calculation Period shall be *multiplied* by a fraction equal to (a) the Applicable Percentage immediately following the final Delivery made during such Reference Obligation Calculation Period and (b) the Applicable Percentage immediately prior to the first Delivery made during such Reference Obligation Calculation Period.

Cumulative Interest Shortfall Payment Amount:

The Cumulative Interest Shortfall Payment Amount with respect to any Fixed Rate Payer Payment Date and any Additional Fixed Amount Payment Date falling on such Fixed Rate Payer Payment Date shall be an amount equal to the greater of:

(a) zero; and

(b) the amount equal to:

(i) the sum of:

(A) the Interest Shortfall Payment Amount for the Reference Obligation Payment Date corresponding to such Fixed Rate Payer Payment Date; and

(B) the product of:

(1) the Cumulative Interest Shortfall Payment Amount as of the Fixed Rate Payer Payment Date immediately preceding such Fixed Rate Payer Payment Date (or zero in the case of the first Fixed Rate Payer Payment Date); and

(2) either:

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(AA) if Interest Shortfall Compounding is applicable, the relevant Cumulative Interest Shortfall Payment Compounding Factor; or

(BB) if Interest Shortfall Compounding is not applicable, 1;

minus

(ii) any Interest Shortfall Reimbursement Payment Amount paid on such Fixed Rate Payer Payment Date.

With respect to any Additional Fixed Amount Payment Date falling after the final Fixed Rate Payer Payment Date, the Cumulative Interest Shortfall Payment Amount shall be equal to:

(x) the Cumulative Interest Shortfall Payment Amount as of the Additional Fixed Amount Payment Date immediately preceding such Additional Fixed Amount Payment Date (or as of the final Fixed Rate Payer Payment Date in the case of the first Additional Fixed Amount Payment Date occurring after the final Fixed Rate Payer Payment Date); *minus*

(y) any Interest Shortfall Reimbursement Payment Amount paid on such Additional Fixed Amount Payment Date.

Upon the occurrence of each Delivery, the Cumulative Interest Shortfall Payment Amount shall be multiplied by a fraction equal to (a) the Applicable Percentage immediately following such Delivery *divided* by (b) the Applicable Percentage immediately prior to such Delivery; *provided, however*, that if more than one Delivery is made during a Reference Obligation Calculation Period, the Cumulative Interest Shortfall Payment Amount calculated as of the Reference Obligation Payment Date occurring immediately after such Reference Obligation Calculation Period shall be multiplied by a fraction equal to (a) the Applicable Percentage immediately following the final Delivery made during such Reference Obligation Calculation Period and (b) the Applicable Percentage immediately prior to the first Delivery made during such Reference Obligation Calculation Period.

Cumulative Interest Shortfall Payment Compounding Factor:

With respect to any Fixed Rate Payer Calculation Period, an amount equal to the sum of:

(a) 1.0;

plus

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(b) the product of:

(i) the sum of (A) the Relevant Rate plus (B) the Fixed Rate; and

(ii) the actual number of days in such Fixed Rate Payer Calculation Period *divided* by 360;

provided, however, that the Cumulative Interest Shortfall Payment Compounding Factor shall be deemed to be 1.0 during the period from but excluding the Effective Maturity Date to and including the Termination Date.

Relevant Rate: With respect to a Fixed Rate Payer Calculation Period, the Floating Rate, expressed as a decimal number with seven decimal places, that would be determined if:

(a) the 2000 ISDA Definitions (and not the 2003 ISDA Credit Derivatives Definitions) applied to this paragraph;

(b) the Fixed Rate Payer Calculation Period were a "Calculation Period" for purposes of such determination; and

(c) the following terms applied:

(i) the Floating Rate Option were the Rate Source;

(ii) the Designated Maturity were the period that corresponds to the usual length of a Fixed Rate Payer Calculation Period; and

(iii) the Reset Date were the first day of the Calculation Period;

provided, however, that the Relevant Rate shall be deemed to be zero during the period from but excluding the Effective Maturity Date to and including the Termination Date.

Rate Source: USD-LIBOR-BBA

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SCHEDULE K

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A Passion to Perform.

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Section 1

Executive Summary

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Opportunity Overview

- $1.1 billion partially static mezzanine ABS CDO to be managed by HBK Investments L.P. and its affiliated subsidiaries ("HBK")
  - Predominantly RMBS (~88.6%) with smaller allocations to ABS CDOs (~4.5%), CMBS (~3.3%) and Student Loans (~3.5%)
  - Static [26.1]% non-investment grade assets (minimum rating of Ba2/BB) – only RMBS assets
  - Pure sequential pay-down structure and with coverage tests
  - Optional call after year 3; auction call after year 6.25
  - As with all its prior CDOs, HBK will purchase 100% of the Equity in Gemstone CDO VII
- De-levering, partially static structure
  - 2-year limited reinvestment period – only investment-grade asset amortizations can be reinvested
  - Reinvestments can be only be in assets rated Baa3/BBB- or better (investment grade)
  - Static below-investment-grade ("BIG") bucket – principal proceeds on BIG assets are used to amortize the capital structure sequentially
- Credit-risk, Credit-improved and Discretionary (up to 20% per annum) trading allowed
- Flexibility to purchase cash and synthetic assets; max 65% synthetic bucket for pay-as-you-go CDS (RMBS and CDOs)
- Triple-B turbo amortizes Class D (Baa2/BBB) using excess interest (otherwise payable to Equity)

Transaction Schedule

Pricing:	end-Feb
Closing:	mid-Mar
Non-call period ends:	3 yrs
Reinvestment period ends:	2 yrs
Auction calls begin:	6.25 yrs
Reverse turbo begins:	8.25 yrs
Legal final date:	40 yrs

(1) Source: HBK.

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Investment Considerations

HBK is one of the premier investment management firms in the industry

- **Experienced CDO Manager with a strong alignment of economic interest with investors**
  - Gemstone VII will be HBK's eighth ABS CDO. HBK has successfully brought to market 7 ABS CDOs totaling $3.6 billion aggregate issuance
  - HBK is an investment management firm founded in 1991 with equity capital under management of approximately $12 billion[1]. HBK's structured finance team manages $5.0 billion in structured finance securities including $3.6 billion of structured product CDOs, as of November 30th, 2006[1]
  - As with all its prior CDOs, HBK will purchase 100% of the Equity in Gemstone CDO VII

HBK's CDO Program is a key component of the investment and funding strategy of its structured product division

- HBK's investment process integrates expertise in capital markets, structural analysis, collateral and loan-level analysis, due diligence, and in-house surveillance. HBK is seen as not as a trader but as a vigilant investor that maximizes value through intensive analysis and surveillance
- Structured products exhibit relatively stable performance and low default history
  - Favorable Default and Rating History – structured products have exhibited historically low incidence of default and as structures delever these assets become candidates for credit outperformance
  - Good Relative Value – structured products have historically priced and continue to price wider than similarly rated corporates due to liquidity and complexity premium that can be arbitraged through buy-and-hold cash flow CDO structure

(1) Source: HBK.

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Section 2

Gemstone CDO VII, Ltd.

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Transaction Overview

Pure sequential pay-down structure and with coverage tests

- **$1.1 billion partially static mezzanine ABS CDO**
  - Target portfolio comprised of [88.6]% RMBS, [4.5]% ABS CDOs, [3.3]% CMBS and [3.5]% Student Loans
  - Static [26.1]% non-investment grade bucket comprised of RMBS assets only rated at least Ba2/BB
- **Delevering sequential structure with coverage tests**
  - Amortizations on assets rated below Baa3/BBB- are used to delever structure and pay down notes
  - Amortizations on investment grade assets can be reinvested for 2 years into investment grade assets only
  - Coverage tests trap and divert excess interest to pay down notes and build overcollateralization

Triple-B turbo amortizes Class D (Baa2/BBB) using excess interest

Indicative Capital Structure

Class	Rating (MDY's/S&P)	Size ($)	Size (%)	Subord (%)	Avg Life[1]	Legal Final
A-1[2]	Aaa/AAA	[716,000,000]	[65.0]%	[35.0]%	[3.2] Years	40 years
A-2	Aaa/AAA	[87,000,000]	[7.9]%	[27.1]%	[5.3] Years	40 years
B	Aa2/AA	[96,900,000]	[8.8]%	[18.3]%	[6.0] Years	40 years
C	A2/A	[68,300,000]	[6.2]%	[12.1]%	[6.3] Years	40 years
D	Baa2/BBB	[55,100,000]	[5.0]%	[7.1]%	[5.7] Years	40 years
E	Ba1/BB+	[18,700,000]	[1.7]%	[5.4]%	[6.3] Years	40 years
Preference Shares[3]	NR	[59,500,000]	[5.4]%			40 years
Total		1,101,500,000	100.0%			

(1) Average Life of tranches calculated to 6.25 year Auction Call (20% of collateral expected to remain outstanding).
(2) Class A-1 may be split into multiple tranches based on investor preference.
(3) 100% of Preference Shares retained by the Collateral Manager and not offered.

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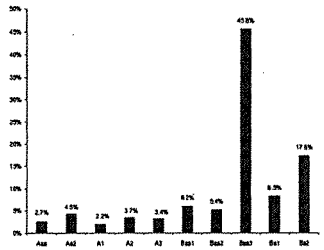
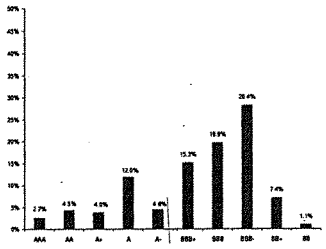
Portfolio Composition

Portfolio Composition

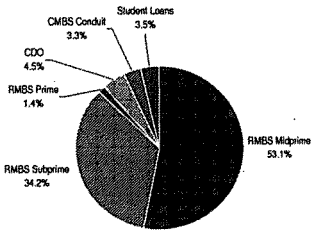
Moody's Rating Composition[1]



S&P Rating Composition



Asset Type Composition



Initial Asset Type vs Moody's Rating[1]

	Total	Aaa	Aa1	Aa2	Aa3	A1	A2	A3	Baa1	Baa2	Baa3	Ba1	Ba2
RMBS Midprime	53.1%	2.7%				1.4%		0.7%	4.5%	4.5%	22.4%	5.2%	11.6%
RMBS Subprime	34.2%					0.6%			1.1%	0.9%	23.4%	3.3%	4.7%
RMBS Prime	1.4%												1.4%
CDO	4.5%			4.5%									
CMBS Conduit	3.3%						1.9%	0.9%	0.6%				
Student Loans	3.5%						1.8%	1.7%					
Total	100.0%	2.7%	0.0%	4.5%	0.0%	2.2%	3.7%	3.4%	6.2%	5.4%	45.8%	8.5%	17.6%

(1) Assets not explicitly rated by Moody's (approximately 6.2%) are notched in accordance with Moody's notching convention.

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Gemstone CDO VII, Ltd.

Section 2

Transaction Highlights

$1.1 billion mezzanine RMBS CDO

100% of equity retained by HBK (or its affiliates)

Ramp-up	The portfolio is expected to be 100% ramped at closing.
Management Fee	Senior Management Fee: 30 bps per annum Subordinate Management Fee: none
Limited Reinvestment Period	2 year Limited Reinvestment Period for investment grade assets only Static non-investment grade bucket – these amortizations are used to pay down structure
Triple-B Turbo	During the first 3 years after closing (11 periods), 10% of the Class D (Baa2/BBB) Notes ($350,909 per period) will be paid down with excess interest proceeds, after the first 3 years, 15% of the excess interest proceeds will be paid to Class D
BB Diversion Test	Excess interest proceeds (otherwise payable to Equity) will pay down Class E (Ba1/BB+) if the Class E Interest Diversion Test fails until it is brought back into compliance
Manager Trading	Credit Risk/Credit Improved and Defaulted Assets pursuant to the Indenture; 20% Discretionary trading
Optional Call	3 years
Auction Call	Auction call after 6.25 years, and if unsuccessful, on a semi-annual basis thereafter
Permanent Reverse Turbo after 8.25 years	If auction calls are unsuccessful for two years, equity will not be paid any excess interest proceeds; instead such monies shall be used to pay down outstanding Notes in a reverse order of seniority: (Class E, followed by Class D, Class C, Class B, Class A-2, and finally, Class A-1)
Synthetic Assets	Up to 65% of the portfolio may consist of "pay-as-you-go" credit default swaps on RMBS or CDO reference obligations, replicating cash position in the underlying Fixed Cap will apply to RMBS PAUG CDS; Variable Cap (and no implied Writedowns) will apply to CDO PAUG CDS. The transaction may feature a GIC to invest the cash that collateralizes the PAUG assets

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Preliminary and Subject to Change

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Gemstone CDO VII, Ltd. Section 2

Transaction Highlights (continued)

Key Collateral Characteristics

	Closing Portfolio	Limit
Floating Rate Assets	[94.1]%	[94.0]% min
Fixed Rate Assets	[5.9]%	[6.0]% max
Synthetic Assets	[58.7]%	[65.0]% max
Moody's WARF	[645] (Baa3/Ba1)	[665] (Baa3/Ba1) max
Moody's Correlation Factor	[21.6]%	[23.1]% max
Moody's Weighted Average Recovery Rate	[25.7]%	[24.2]% min
Weighted Average Spread	[2.36]%	Spread vector covenant
Weighted Average Coupon	[5.38]%	Coupon vector covenant

Coverage Tests

	Overcollateralization			Interest Coverage		
	At Closing	Test	Cushion	At Closing (1)	Test	Cushion
Class A/B OC Test	[122.37]%	[117.37]%	[5.00]%	[140.10]%	[107.00]%	[33.10]%
Class C OC Test	[113.74]%	[109.99]%	[3.75]%	[127.91]%	[103.00]%	[24.91]%
Class D OC Test	[107.61]%	[104.86]%	[2.75]%	[117.13]%	[100.00]%	[17.13]%
Class E Diversion Test	[105.68]%	[103.56]%	[2.12]%			

(1) Interest Coverage at Closing are estimates.

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Eligibility Criteria

Eligibility Criteria (Concentration Limits)

Ratings Concentration Limits	Max [26.1]% rated below Baa3/BBB- (RMBS only)
Specified Type (Asset Type) Limits	Max [100]% Home Equity, Residential A, and Residential B/C in aggregate Max [10]% CMBS in aggregate Max [10]% CDO in aggregate; all CDOs must be rated Baa3/BBB- or above Max [5]% ABX tranches in aggregate Other Asset Types subject to additional limitations
Servicer Limits	The aggregate principal balance of all assets serviced by the same Servicer should not exceed [7.5]%, except that the aggregate principal balance may be up to: - [20]% if the Servicer is rated at least Aa3 or SQ1 by Moody's - [10]% if the Servicer is rated below Aa3 and below SQ1 Moody's (2 exceptions may be up to [15]% each) or, the aggregate principal balance may be up to: - [15]% if rated at least AA- or Strong by S&P - [10]% if rated at least A- or Above Average by S&P
Issue (Security/CUSIP-level) Limits	Max [2.5]% Baa3/BBB- or higher (5 exceptions up to [3.0]%) Max [1.25]% for Ba1/BB+ or below (5 exception up to [1.5]%)
Synthetic Security Limits	Max [65]% Synthetic Securities
Fixed Rate Assets	Max [6.0]%

Collateral Haircuts for Class A/B, C and D Overcollateralization Tests

	Initial Level	Allowed Cushion[1]	Haircuts for collaterals over the threshold (Initial + Cushion)
Moody's Ba1/Ba2/Ba3 rated collateral	[26.1]%	[5]%[2]	[10]%
Moody's B1/B2/B3 rated collateral	[0]%		[20]%
Moody's Below B3 rated collateral	[0]%		[50]%
S&P BB+/BB/BB- rated collateral	[8.4]%	[5]%[2]	[10]%
S&P B+/B/B- rated collateral	[0]%		[20]%
S&P Below B- rated collateral	[0]%		[30]%

References to ratings are to Moody's and S&P ratings, as applicable. For a complete description of haircuts, please refer to the Offering Circular.

(1) Allowed Cushion is in addition to the Initial Level of collateral.

(2) Allowed Cushion may be up to [5]% shared between the three major rating categories listed above as long as the total threshold amount is no more than [31.1]% (26.1% + 5.0%) for Moody's and no more than [13.4]% (8.4% + 5.0%) for S&P across all three major rating categories.

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Gemstone CDO VII, Ltd. Section 2

Investment Rationale

Class C/D Expected OC Levels

- **Faster OC Buildup** – Compared with a traditional 3-year reinvestment period structure, Gemstone CDO VII builds OC quicker due to the partially static structure, short 2-year reinvestment period and the triple-B turbo feature.

Weighted Average Spread Vector

- **Spread Curve Vector**[1] – WAS is expected to decrease over time due to static amortizing BB RMBS assets which have higher spreads. This issue is addressed in Gemstone VII by modeling the WAS as a spread vector that declines over time.

Expected WARF

- **Improved Credit Quality Over Time**[2] – As the BB RMBS assets amortize, investment grade assets will remain, resulting in an overall credit improvement

(1) IG Floating reinvestments are assumed to be in assets with 3.5 year bullet maturity and spread of 230 bps.
(2) IG asset amortizations are assumed to be reinvested in assets that have a WARF equal to the initial WARF of the relevant IG bucket.

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Gemstone CDO VII, Ltd. Section 2

Investment Rationale

Asset Portfolio Amortization

- The credit quality of the portfolio is expected to naturally improve over time due to the static BB bucket and the reinvested investment-grade assets
- The Gemstone VII structure has higher subordination because it does not take credit from rating agencies for the natural WARF improvement and is also conservatively sized to take into account that portfolio spread (WAS) will decline over time

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Breakeven Analysis

Breakeven's – to Maturity[1][2][3]

	To PIK		To Break in Yield		To Return of investment	
	CDR	Cumulative	CDR	Cumulative	CDR	Cumulative
Class A-1	[29.1]%	[69.7]%	[29.1]%	[69.7]%	[49.4]%	[83.1]%
Class A-2	[21.2]%	[57.8]%	[21.2]%	[57.8]%	[24.7]%	[63.4]%
Class B	[15.1]%	[47.0]%	[15.1]%	[47.0]%	[17.9]%	[51.6]%
Class C	[7.7]%	[28.8]%	[9.3]%	[32.9]%	[11.4]%	[38.7]%
Class D	[4.0]%	[15.9]%	[4.0]%	[15.9]%	[6.8]%	[26.3]%
Class E	[1.0]%	[4.2]%	[2.7]%	[11.0]%	[4.2]%	[16.9]%

(1) Note breakeven analysis assumes: (i) forward LIBOR curve, (ii) base case collateral cash flows, (iii) constant annual defaults occur from the closing date and at the beginning of each collection period with 50% instantaneous recovery, (iv) principal and interest proceeds on cash assets are assumed to be reinvested short term and accrue interest at 3m LIBOR – 0.20%.
(2) 30bps senior collateral management fee; senior ongoing deal expenses: US$250,000 p/a + 0.04% p/a.
(3) To maturity assuming no calls.

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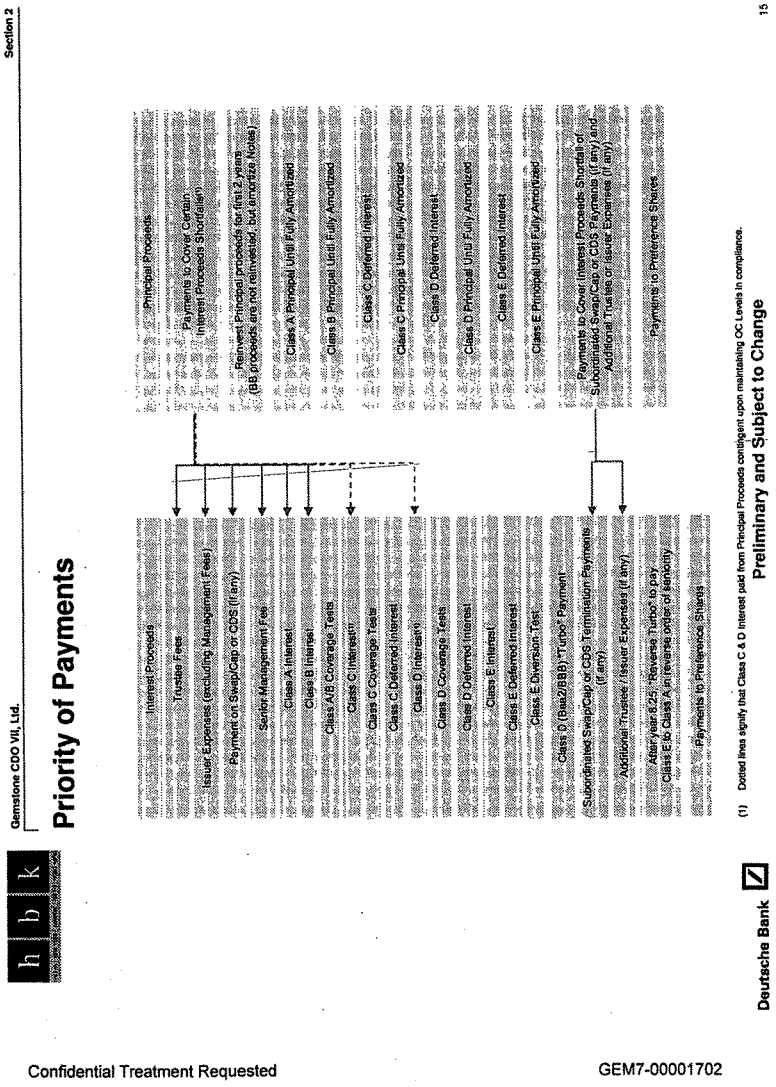

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Section 3

Collateral Manager Overview – HBK Investments L.P.

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Overview

- HBK Investments L.P. together with its affiliated subadvisors ("HBK") is an investment management firm founded in October 1991 with equity capital under management of approximately $12 billion. HBK's structured finance team manages $5.0 billion in structured finance securities, including $3.6 billion of structured product CDOs, as of November 30, 2006[1]
- HBK's main office is in Dallas, Texas, with affiliated subadvisory offices in New York, London, Hong Kong and Tokyo
- HBK employs approximately 300 individuals in its five offices globally
- HBK's senior management team has been working together since 1994
- The firm strives to provide superior risk-adjusted rates of return with relatively low volatility and relatively low correlation to most major market indices
  - "multi-strategy" approach with a sub-categorization of either "market neutral" or "absolute return"
- From inception through November, 2006, HBK generated a compounded annual return of 14.61%, net of all fees and expenses and assuming reinvestment of all distributions[1][2]
  - positive returns for every consecutive 12-month period in its history
- HBK currently manages seven ABS CDOs
  - CDOs as a term-financing source, not as a fee-generation arbitrage vehicle
  - performance snapshots of prior CDOs are provided in Section 4
  - all junior tranches of Sandstone CDO, HBK's first ABS CDO, have been upgraded a full rating by S&P and are currently on upgrade watch by Moody's

(1) Source: HBK
(2) Past performance is not indicative of future performance.

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Tab A

Organization and Management

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Investment Structure

- Funds from HBK's investors are invested through one of two feeder funds:
  - HBK Fund L.P. is structured to accommodate qualifying U.S. taxable investors
  - HBK Offshore Fund Ltd. is structured to accommodate U.S. tax exempt investors and non-U.S. investors
- These two funds have combined most of their assets into a single master pool called HBK Master Fund L.P.
- HBK organizes its portfolio positions into a number of business units, each with a different investment strategy
- For analysis and reporting, the business units are aggregated into four main investment groups:
  - Credit: Corporate; Non-Corporate
  - Equity: Event or Spread Driven; Relative Value
  - Volatility, Quantitative and Other
  - Developed Markets Fixed Income
- Investments in U.S. structured products fall under both Credit (Non-Corporate) and Developed Markets Fixed Income depending on the credit rating of the asset in question

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hbk

Structured Products Group

- HBK's Structured Products Group is one of the leading purchasers and long-term investors in credit sensitive mortgages
  - the group is responsible for managing the structured products portfolio, including RMBS and ABS, a component in HBK's overall strategy since 2002
- HBK's business model focuses on deriving returns from buy and hold income revenue instead of short-term trading
- HBK's investment model utilizes proprietary default, prepay, and severity loan level models to make investments in the residential market
- CDO program provides long-term committed financing to HBK
- HBK has retained 100% of the equity from CDO transactions resulting in strong alignment of interests between HBK and investors

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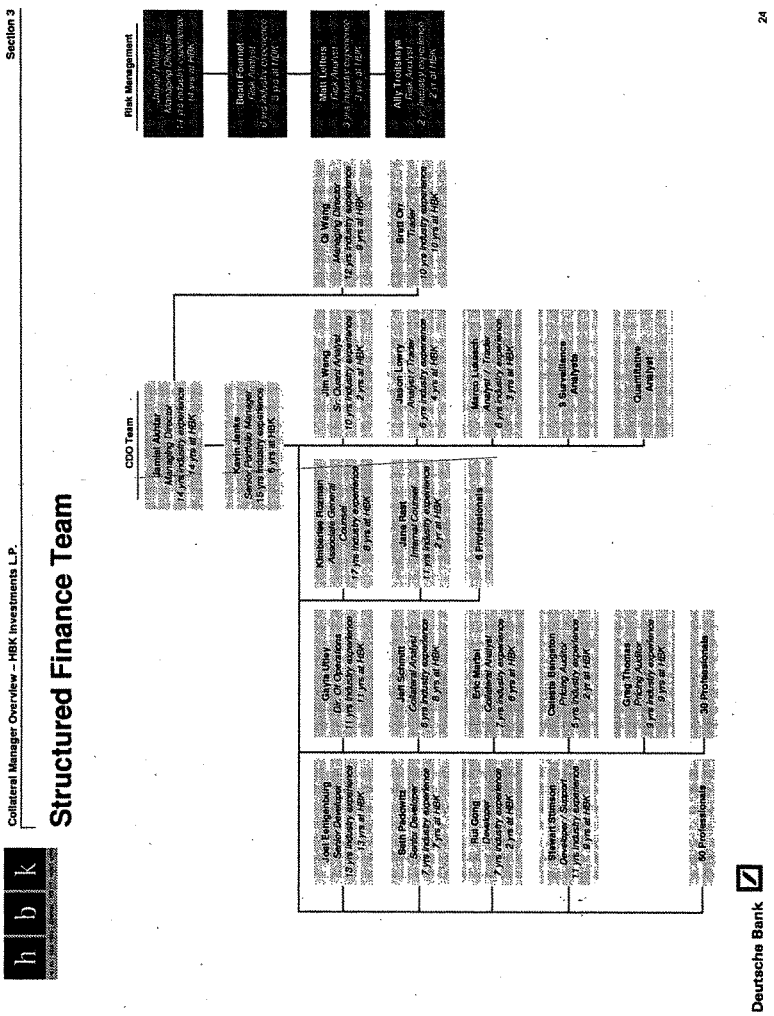

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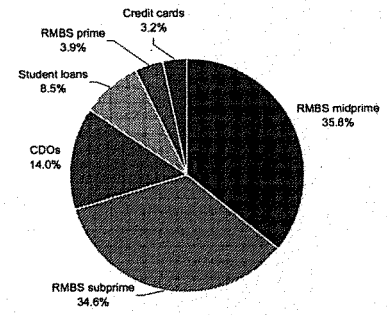
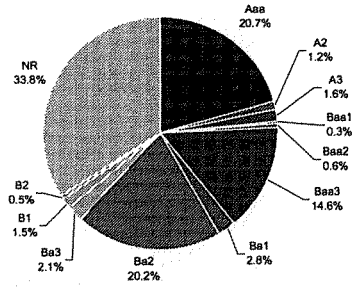
Structured Products Portfolio

- RMBS / ABS have been a component in HBK's overall strategy since 2002. HBK manages a structured products portfolio of approximately $5.0 billion, including $3.6 billion of structured product CDOs[1]
- HBK follows a buy-and-hold strategy for its ABS investments; HBK hedges the interest rate exposure and retains the credit exposure of its ABS portfolio
- Currently, there are only three downgrades[2] in HBK's ABS portfolio

Asset Type



Rating[3]



(1) As of November 2006.
(2) Excluding one other downgraded asset that paid down to par.
(3) A portion of the "NR" assets includes residuals.
Source: HBK

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Tab B

Investment Process

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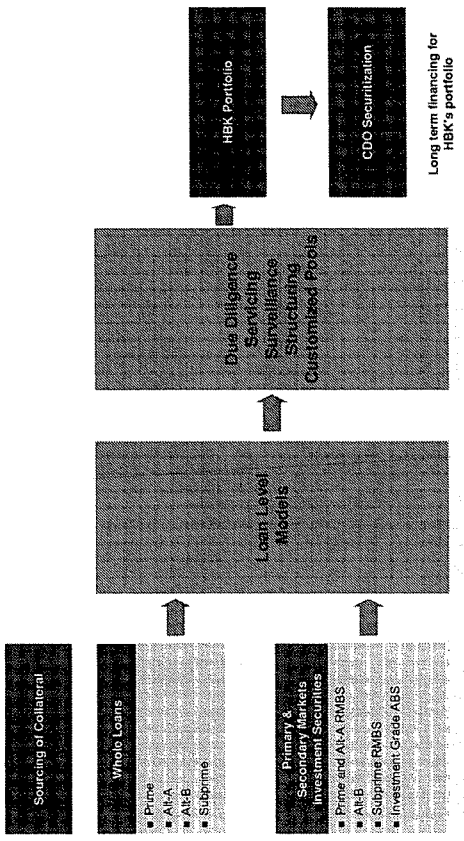
Collateral Manager Overview – HBK Investments L.P. Section 3

Investment Model



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Security Selection and Portfolio Management (continued)

Investment Origination

Transaction Analysis

Portfolio Construction and Management

Collateral Analysis

- conduct due diligence of underlying loan collateral to formulate investment assumptions
- loan level models
  - delinquency and default forecast
  - loss severity
  - collateral prepayment forecast
- FICO stratifications, loan to value ratios, historical data, and static vintage performance are among the factors included in the analysis

Waterfall Analysis

- determine priority of cash flows available to the investment
  - seniority
  - lock-outs
  - loss / delinquency triggers
  - static vs. revolving pools
- use cash flow models to analyze investment performance assuming multiples of expected default, varying interest rate paths, loss severity and payment rates
- assess sufficiency of credit enhancement

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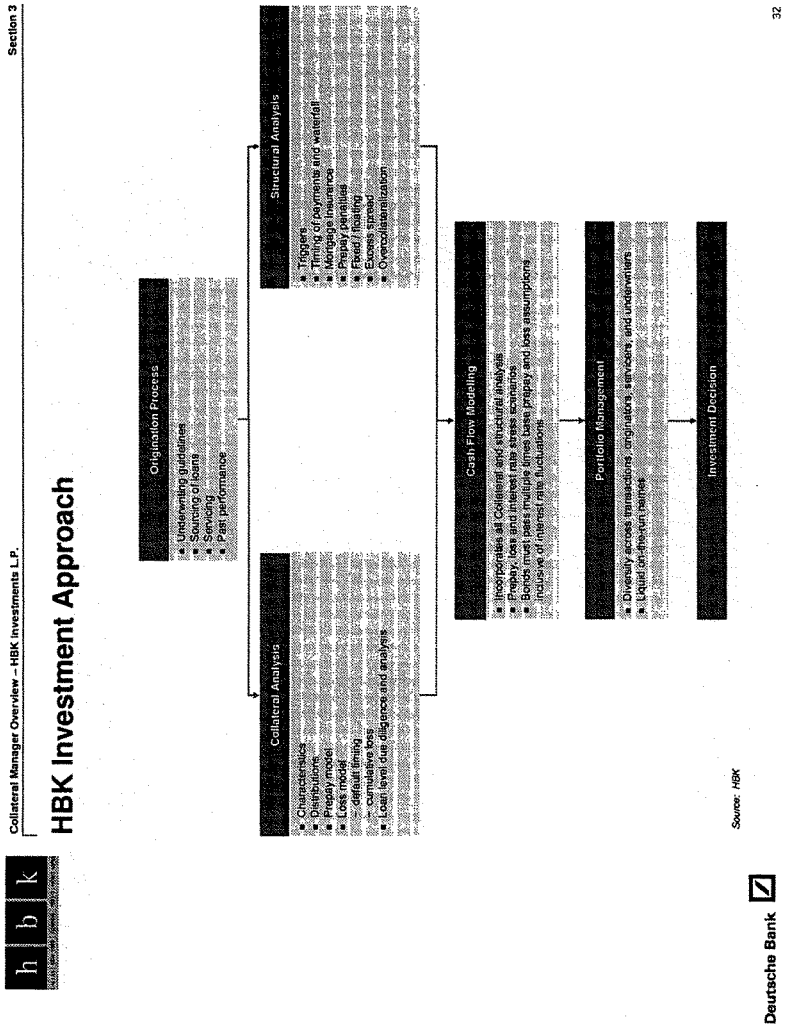

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Ongoing Surveillance and Monitoring

HBK's upgrade to downgrade ratio is 23:3

- HBK's credit files contain the relevant documentation and analysis performed at the time of asset purchase including, where available: offering documents, marketing material, rating agency reports, collateral stratifications, loan-level information and performance, servicer reports, and sensitivity analysis (movements in interest curves, prepayments, defaults)
- Transaction performance is tracked monthly via trustee surveillance reports and ongoing loan-level information to monitor and analyze parameters such as collateral yields, delinquency and default trends, recoveries, prepayments, and available credit enhancement
- Updated stress analysis performed on underperforming transactions to review adequacy of credit enhancement under various probabilistic scenarios to analyze potential losses and make a sell or hold decision
- News monitoring for headline risk (related to originators and servicers) including changes in senior unsecured ratings or stock prices
- On-site servicer due-diligence on an ongoing basis and when required on a per deal basis on below-investment-grade securities
- Systems used for monitoring include: Intex, Bloomberg, iCDO, YieldBook, ABSNet, RiskSpan, Loan Performance and HBK's proprietary loan-level loss, default and prepayment models

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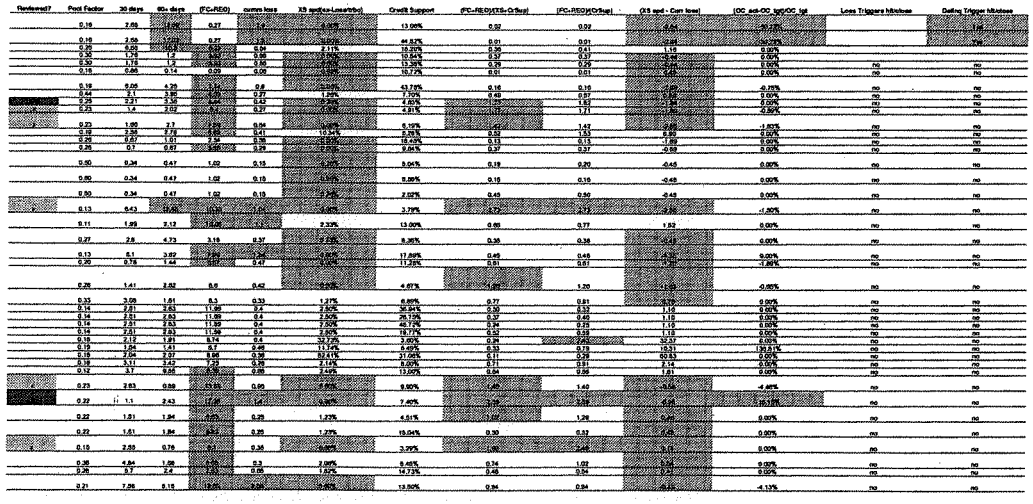
Ongoing Surveillance – Step 1

- Asset level credit and prepayment performance data is collected monthly from remittance reports and flagged for certain performance statistics



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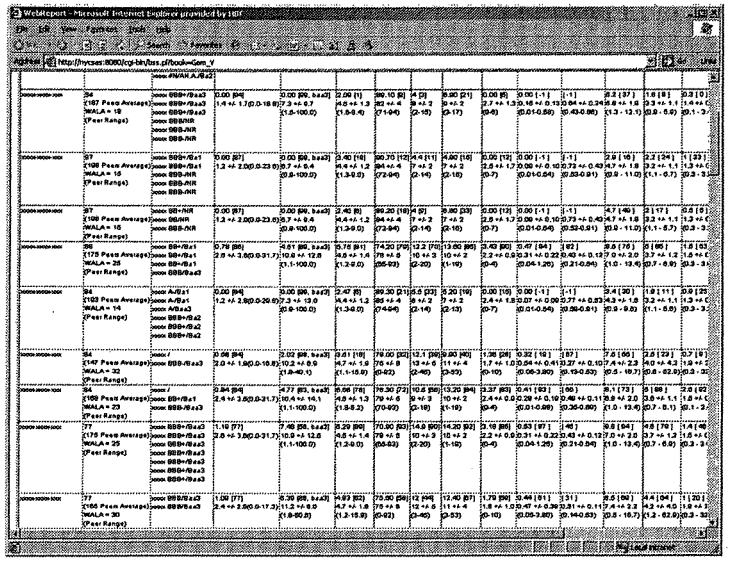
Ongoing Surveillance – Step 1 (continued)

- Bonds are compared monthly to the entire market on a number of different factors based on loan level performance



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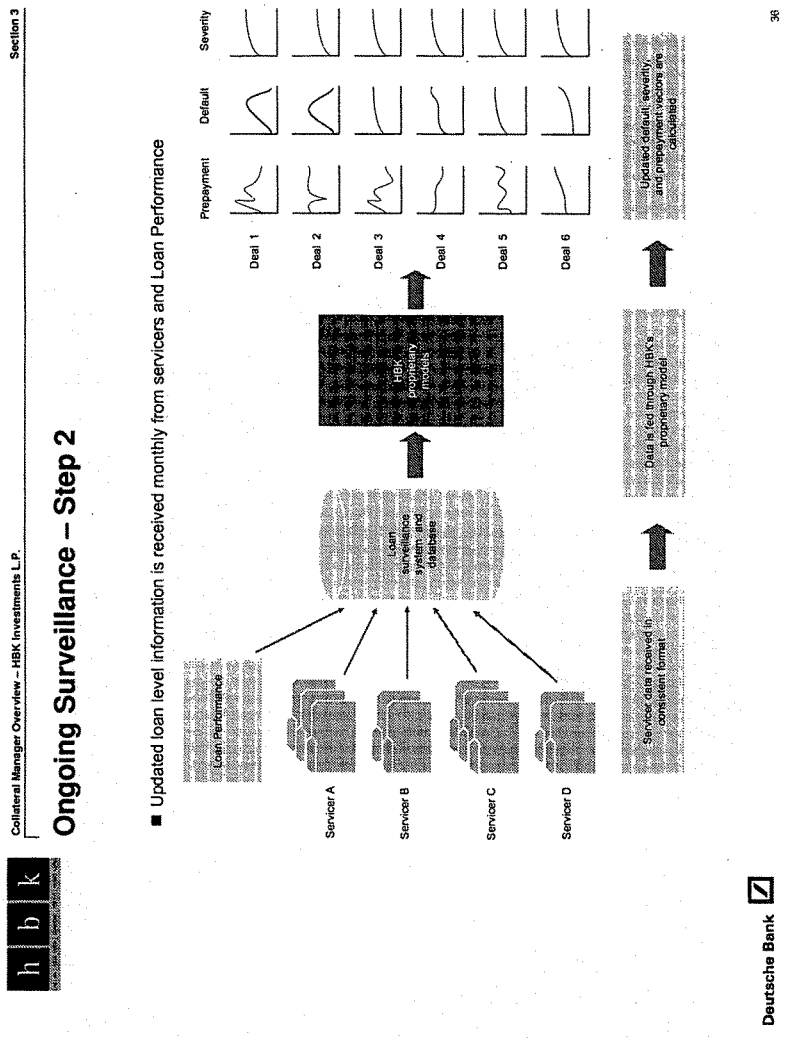

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Collateral Manager Overview – HBK Investments L.P. Section 3

Rating Stability in HBK's ABS CDOs

- The quality of the underlying collateral of HBK's previous ABS CDOs is reflected in a stable or improved Moody's WARF since inception

Moody's WARF Change Since Closing

Note: Sufficient data points for Gemstone CDO VI are not yet available to chart historical performance.
Source: HBK and Trustee Reports, as of December 2008 reports.

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Tab C

HBK Analytic Systems

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HBK Analytics

- HBK's proprietary Default/Prepay and Severity MSA-level model allows for predictive power of future deal performance
- Because all whole loan packages and every primary deal issued in the market is analyzed, in addition to our loan level surveillance systems, HBK is able to pick up on trends before they adversely impact the CDO
- Due to size and trading volume, HBK works with dealers and originators to customize pools by kicking out problem loans
- As a significant buyer of residuals, HBK also purchases much of the capital structure of those particular RMBS names
  - CDO buyers' interests are closely aligned with HBK's interests as HBK has considerable exposure to the same or lower rated bonds in our CDOs
- HBK now has the ability to monitor the portfolio performance through a Blackberry globally

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Proprietary Systems

- HBK analyzes every bond in the market, providing for a vast range of data as well as meaningful comparison both on an absolute and a relative basis
- From this data, trends can be observed early regarding the bonds themselves as well as the general economy and the implications on future issuance

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Proprietary Cashflow Systems

- Based on existing loan and economic data, HBK's models generate multiple scenarios based on HPA, interest rates, unemployment as well as other factors
- These scenarios are fed through our proprietary cash flow engine to calculate loss coverage multiples and likely total return over the life of the security

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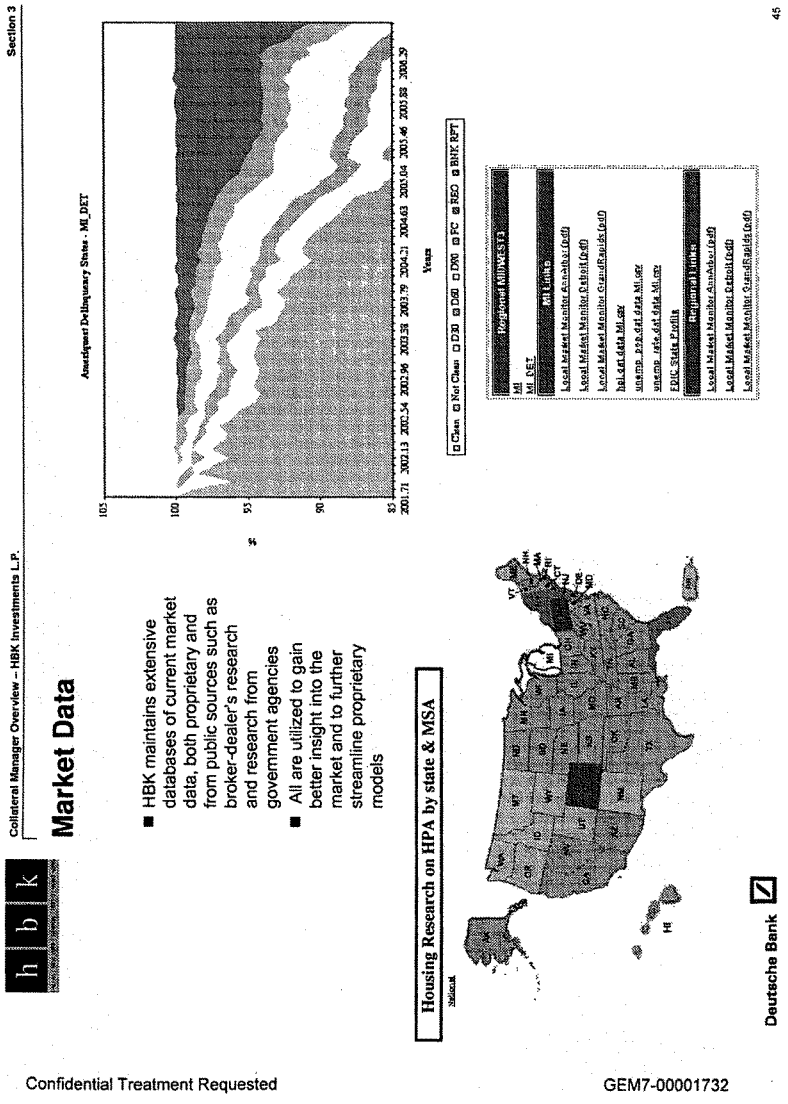

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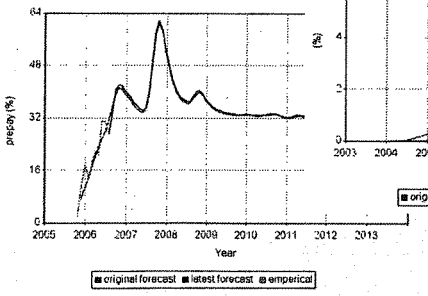
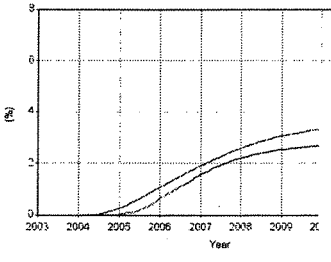
Future Developments

- HBK is continuously looking to improve our existing models and methodology
- HBK maintains constant dialogue with other market leaders such as broker-dealers, originators, servicers, and the rating agencies to better improve our models
- HBK spent months developing and streamlining a new system to allow for faster analysis and additional stresses on collateral
- HBK continuously compares our predictions to market empirical evidence to verify and improve our models

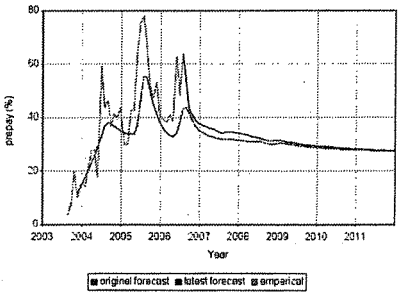
Prepayments



Cumulative Losses



Prepayments



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Tab D

Biographies of Structured Products CDO Team

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Biographies

Jamiel Akhtar

Mr. Akhtar has been associated with HBK since 1993 and is a Managing Director of HBK. Mr. Akhtar is primarily responsible for HBK's developed markets fixed income arbitrage portfolio, which includes investments in government and agency bonds, futures, interest rate derivatives, and mortgage and asset-backed securities. Mr. Akhtar is also responsible for HBK's Risk Management Group. He received an A.B. degree cum laude in Economics in 1993 from Harvard College

Kevin Jenks

Mr. Jenks has been associated with HBK since 2002 and is the firm's senior portfolio manager for the ABS, MBS and CMBS sectors. From 2000 to 2002, Mr. Jenks was a senior portfolio manager at Vanderbilt Capital Advisors, LLC specializing in the structured product fixed income market with a focus on structured credit securities. He was a senior member of a five person team responsible for managing over $6 billion in institutional fixed income portfolios for clients. From 1997 to 2000, Mr. Jenks was a portfolio manager with Prime Advisors, where he was responsible for the trading, investment strategy and management of a $3 billion plus fixed income portfolio consisting of total return funds and insurance company portfolios. In addition, he was also the firm's sector manager for structured product securities. Prior to 1997, Mr. Jenks held various trading, analyst and portfolio management positions at Bank Boston, The Boston Company Asset Management and Fidelity Investments. Mr. Jenks received a B.S. degree in Finance in 1992 from the University of Massachusetts

Jason Lowry

Mr. Lowry is an assistant trader/analyst with HBK. Jason oversees system analytics and structural analysis. Prior to joining HBK Mr. Lowry was a quantitative analyst with Freddie Mac in fixed income research. Mr. Lowry received a B.S. degree in Physics and Mathematics with University and Departmental Honors from Carnegie Mellon in 2001

Marco Lukesch

Mr. Lukesch is an analyst with HBK. Marco oversees surveillance and collateral analysis on new trades and existing positions. Prior to joining HBK Mr. Lukesch was a consultant with Oliver, Wyman & Co, a strategy consulting firm devoted to the financial services industry. Mr. Lukesch graduated magna cum laude from the University of Pennsylvania in 2001 receiving a B.S. from the Wharton School and a B.A. from the College and was elected Phi Beta Kappa

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Biographies (continued)

Kimberlee Rozman

Ms. Rozman has been associated with HBK since 1999 and is Associate General Counsel of HBK. Ms. Rozman is responsible for a range of HBK's legal and compliance matters. Prior to joining HBK Ms. Rozman was associated with Jackson & Walker L.L.P. Ms. Rozman received a J.D. degree summa cum laude from Dickinson Law School in 1990

Gayla Mathis

Mrs. Mathis has been associated with HBK since 1996 and is responsible for global trading operations. Mrs. Mathis graduated from Texas A&M University in 1996 with a B.S. in Accounting

Jim Wang

Mr. Wang is a senior quantitative analyst with HBK. His primary responsibilities include developing prepayment and default models to analyze mortgage pools. Prior to joining HBK, Mr. Wang was a quantitative analyst in ABS Research at Citigroup. Mr. Wang graduated from Brandeis University with Ph.D. in physics in 1996

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Section 4

Performance of HBK's Prior CDOs

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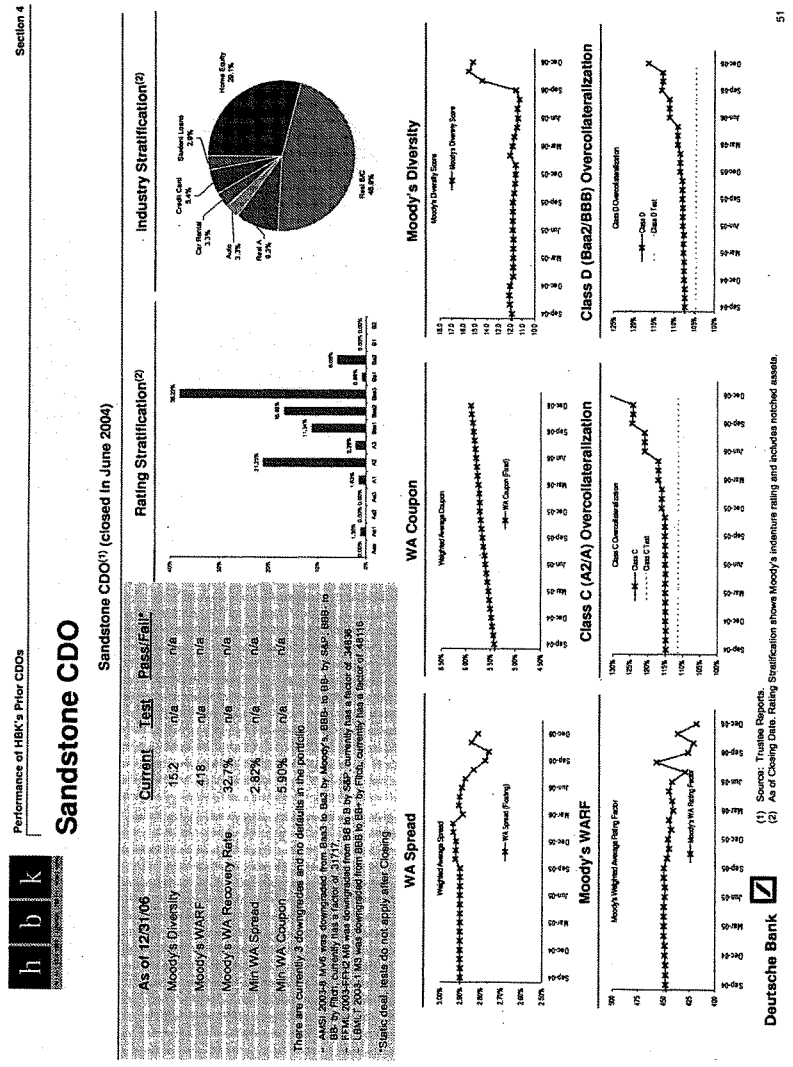

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Gemstone CDO

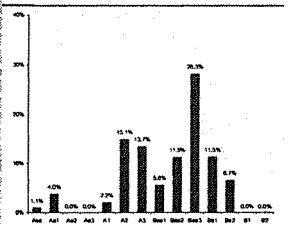
Gemstone CDO[1] (closed in December 2004)

As of 12/31/06	Current	Test	Pass/Fail*
Moody's Diversity	12.3	n/a	n/a
Moody's WARF	469	n/a	n/a
Moody's WA Recovery Rate	32.9%	n/a	n/a
Min WA Spread	2.20%	n/a	n/a
Min WA Coupon	5.48%	n/a	n/a

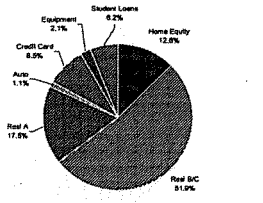
There are currently no downgrades or defaults in portfolio

*Static deal, tests do not apply after Closing

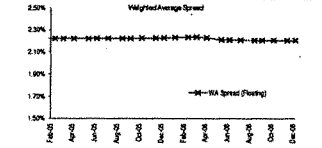
Rating Stratification[2]



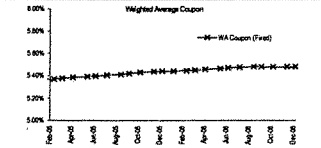
Industry Stratification[2]



WA Spread



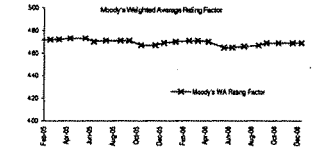
WA Coupon



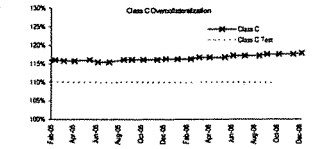
Moody's Diversity



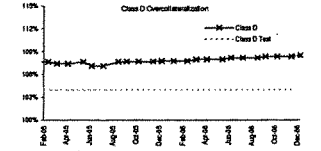
Moody's WARF



Class C (A2/A) Overcollateralization



Class D (Baa2/BBB) Overcollateralization



(1) Source: Trustee Reports.
(2) As of Closing Date. Rating stratification shows Moody's indenture rating and includes notched assets.

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Gemstone CDO II

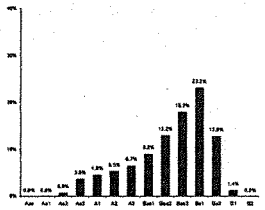
Gemstone CDO II[1] (closed in May 2005)

As of 12/31/06	Current	Test	Pass/Fail*
Moody's Diversity	11	n/a	n/a
Moody's WARF	650	n/a	n/a
Moody's WA Recovery Rate	27.6%	n/a	n/a
Min WA Spread	2.19%	n/a	n/a
Min WA Coupon	5.56%	n/a	n/a

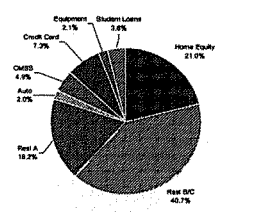
There are currently no downgrades or defaults in portfolio

*Static deal tests do not apply after Closing

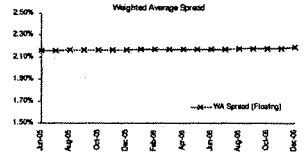
Rating Stratification[2]



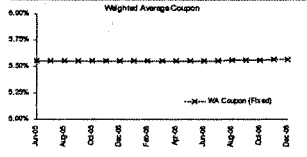
Industry Stratification[2]



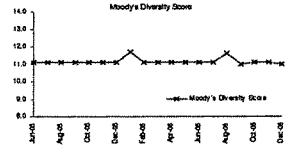
WA Spread



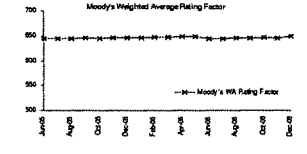
WA Coupon



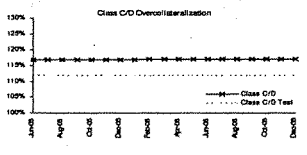
Moody's Diversity



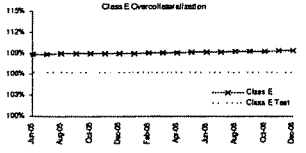
Moody's WARF



Class C/D (A2/A3/A/A-) Overcollateralization



Class E (Baa2/BBB) Overcollateralization



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(1) Source: Trustee Reports.
(2) As of Closing Date. Rating stratification shows Moody's indenture rating and includes notched assets.

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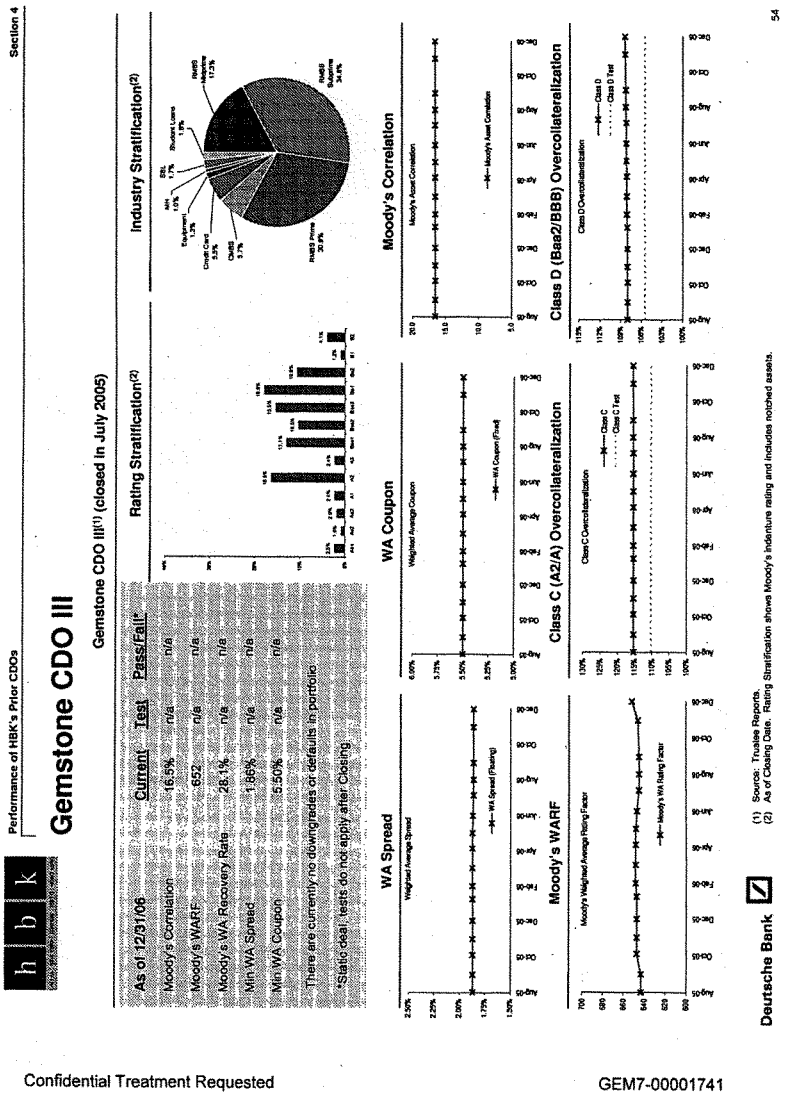

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Performance of HBK's Prior CDOs

Section 4

Gemstone CDO IV

Gemstone CDO IV[1] (closed in January 2006)

As of 12/31/06	Current	Test	Pass/Fail*
Moody's Correlation	18.3%	n/a	n/a
Moody's WARF	646	n/a	n/a
Moody's WA Recovery Rate	27.7%	n/a	n/a
Min WA Spread	1.86%	n/a	n/a
Min WA Coupon	5.27%	n/a	n/a

There is currently one downgrade and no defaults in the portfolio.
AMSI 2003-8 M06 was downgraded from Baa3 to Ba3 by Moody's, BBB- to BB- by S&P, BBB- to BB- by Fitch; currently has a factor of .3171.
*Static deal; tests do not apply after Closing.

Rating Stratification[2]

Industry Stratification[2]

WA Spread

WA Coupon

Moody's Correlation

Moody's WARF

Class C (A2/A) Overcollateralization

Class D (Baa2/BBB) Overcollateralization

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(1) Source: Trustee Reports.
(2) As of Closing Date. Rating Stratification shows Moody's indenture rating and includes notched assets.

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Gemstone CDO V

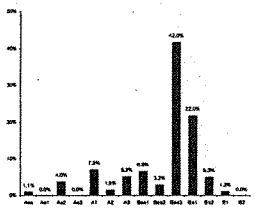
Gemstone CDO[1] (closed in May 2006)

As of 12/31/06	Current	Test	Pass/Fail*
Moody's Correlation	17.5%	n/a	n/a
Moody's WARF	610.6	n/a	n/a
Moody's WA Recovery Rate	26.7%	n/a	n/a
Min WA Spread	1.90%	n/a	n/a
Min WA Coupon	5.00%	n/a	n/a

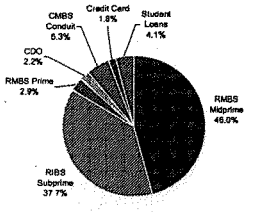
There are currently no downgrades or defaults in portfolio

*Static deal, tests do not apply after Closing

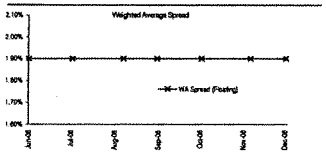
Rating Stratification[2]



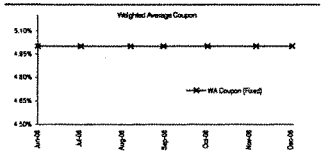
Industry Stratification[2]



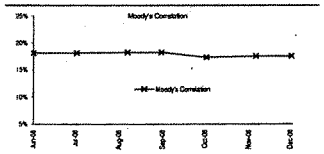
WA Spread



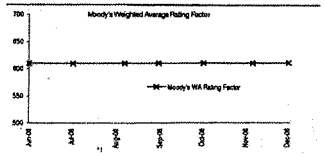
WA Coupon



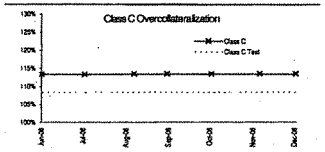
Moody's Correlation



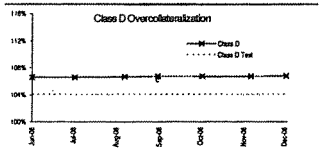
Moody's WARF



Class C (A2/A) Overcollateralization



Class D (Baa2/BBB) Overcollateralization



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(1) Source: Trustee Reports.
(2) As of Closing Date. Rating Stratification shows Moody's indenture rating and includes notched assets.

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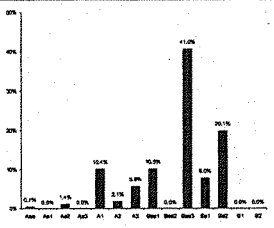
Gemstone CDO VI

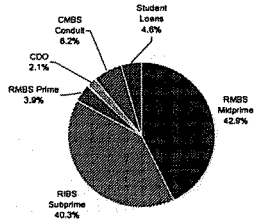
Gemstone CDO VI[1] (closed in September 2006)

As of 12/31/06	Current	Test	Pass/Fail
Moody's Correlation	18.6%	19.5%	Pass
Moody's WARF	644	650	Pass
Moody's WA Recovery Rate	24.90%	23.5%	Pass
Min WA Spread	1.88%	1.60%	Pass
Min WA Coupon	5.68%	4.90%	Pass
Class C (A2/A) OC	113.38%	108.36%	Pass
Class D (Baa2/BBB) OC	107.25%	104.75%	Pass
There have been no downgrades or defaults in portfolio			

Rating Stratification[2]



Industry Stratification[2]



■ Recently closed CDO: Sufficient data points are not yet available to chart historical performance

(1) Source: Trustee Reports.
(2) As of Closing Date. Rating Stratification shows Moody's indenture rating and includes notched assets.

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Appendix I

Risk Factors

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Risk Factors

Appendix I

Risk Factors

Lack of Liquidity and Restrictions on Transfer
The Notes should be viewed as a long-term investment and not as an investment to be traded. There can be no assurance that there will be any secondary market for the Notes. Furthermore, any trading of the Notes will be subject to certain transfer restrictions.

Potential for Interruption and Deferral of Cash Flow
If certain Coverage Tests are not met (e.g. due to Collateral Debt Security defaults), then cash flow that otherwise would have been available to pay interest on the subordinate Notes and distributions to the Preference Shares would instead be used to redeem Class A Notes and, after the Class A Notes are paid in full, to redeem the Class B Notes and, after the Class B Notes are paid in full, to redeem the Class C Notes and, after the Class C Notes are paid in full, to redeem the Class D Notes until the tests again are satisfied. This could result in the early redemption of the Class A Notes, Class B Notes, Class C Notes and Class D Notes.

Limited Recourse Obligations
The Issuer will have no assets other than the Collateral Debt Securities and the Interest Rate Swap Agreements and Investment Agreements. Payments on the Notes and distributions on the Preference Shares will be payable solely from the cash flow of the assets of the Issuer. None of the Placement Agent (Deutsche Bank Securities Inc.), the Collateral Manager or any of their respective affiliates will have any obligation to make payments of principal, interest or other distributions on any of the securities issued by the Issuer.

Subordination
The payment of interest on each class of Notes is subordinated to the payment in full of the interest due and payable on any more senior class of Notes and certain other amounts, and application of Interest Proceeds to make payments on the Preference Shares is subordinated to the payment in full of the interest due and payable on each class of Notes and certain other amounts. Subject to certain limited exceptions, the payment of principal of each class of Notes is subordinated to payment in full of interest on and principal of any more senior class of Notes and all other amounts payable to the Issuer, and the application of Principal Proceeds to make payments on the Preference Shares is subordinated to the payment in full of interest on and principal of each class of Notes payable to the Issuer and all other amounts.

Asset/Liability Mismatch Risk
The floating rate nature of the Notes financing of the Issuer and the fixed rate nature of certain of the Collateral Debt Securities could produce a fixed/floating interest rate mismatch between the assets and the liabilities of the Issuer. Therefore, an increase in the level of LIBOR may adversely impact the returns on the Notes. The Issuer will enter into interest rate swaps which should reduce the asset/liability mismatch and therefore lower the return sensitivity of the Notes to changes in the absolute level of interest rates. Any mismatch would adversely affect returns on the Notes.

Please refer to the Offering Circular for a complete list of Risk Factors and detailed descriptions.

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Risk Factors

Appendix I

Risk Factors (continued)

Risk of the Collateral Debt Securities	The Collateral Debt Securities are subject to substantial credit, liquidity and interest rate risk. The synthetic securities, the interest rate swap and the Investment Agreement are subject to counterparty risk.
Maturity and Prepayment Considerations	The Stated Maturity of the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class E Notes will be the Distribution Date in [ ]. However, due to, among other things, the Clean-Up Call Redemption and the performance of the Collateral Debt Securities, the average life of the Notes is expected to be significantly shorter than the Stated Maturity for such class of Notes.
Structured Finance Obligations and Synthetic Securities	The Collateral Debt Securities may consist of structured finance securities and synthetic securities for which the reference obligations are structured finance securities. The market for these securities is generally less liquid than for other types of securities, which may prevent the Collateral Manager from taking advantage of changes in market conditions for the resale of the structured finance securities and synthetic securities. The issuer may also be subject to the credit risk of the counterparty on any synthetic securities, which will be in addition to the credit risk associated with the reference obligation and the synthetic security itself.
Tax and ERISA Considerations	Special tax and ERISA considerations may apply to certain types of investors. Prospective investors are urged to consult with their own tax and ERISA advisors to determine the tax and ERISA implications of this investment, and to review the tax-related and ERISA-related provisions in the final Offering Memorandum and the Indenture.
Conflicts of Interest	Various potential and actual conflicts of interest may arise from the overall investment activity of the Collateral Manager and its respective affiliates. Among other things, the Collateral Manager may invest for the accounts of others in securities that would be appropriate for the Issuer and in securities that are senior to or subordinate to securities of the same issuers as those owned by the Issuer. Also, since the Collateral Manager, its affiliates, or its clients may own all or part of a Class of the Notes or the Preference Shares, various actual and potential conflicts may exist as a result of the Collateral Manager taking action on its behalf, on behalf of its affiliates or its asset management clients and on behalf of the Holders of the Notes or the Preference Shares.

Please refer to the Offering Circular for a complete list of Risk Factors and detailed descriptions.

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Permanent Subcommittee on Investigations

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modified for readability and printing purposes by the Subcommittee.
Original document retained in the Subcommittee files.

Portfolio Manager

Index	Ticker	Original Face	S&P Final Rating	Moody's Final Rating	Synthetic / Cash	Specified Type	Issue Date	Servicer / Manager	Originator	Counterparty	Trade Date
1	LBMLT 2006-5 M9	10,000,000	BBB+	Baa3	Synthetic	RMBS Midprime	6/15/2006	Washington Mutual	Long Beach	JPM	10/24/2006
2	LBMLT 2006-5 M9	10,000,000	BBB+	Baa3	Synthetic	RMBS Midprime	6/15/2006	Washington Mutual	Long Beach	BCAP	10/24/2006
3	JPMAC 2006-HE1 M9	15,000,000	BBB-	Baa3	Synthetic	RMBS Midprime	2/28/2006	Chase		GS	10/24/2006
4	SABR 2006-OP1 B3	15,000,000	BBB	Baa3	Synthetic	RMBS Subprime	1/26/2006	Option One	Option One	DB	12/12/2006
5	SABR 2006-OP1 B3	5,000,000	BBB	Baa3	Synthetic	RMBS Subprime	1/26/2006	Option One	Option One	GS	10/24/2006
6	SABR 2006-OP1 B3	10,000,000	BBB	Baa3	Synthetic	RMBS Subprime	1/26/2006	Option One	Option One	BCAP	10/24/2006
7	MSAC 2006-HC1 B3	5,000,000	BBB	Baa3	Synthetic	RMBS Subprime	1/27/2006	HomEq	New Century	ML	10/24/2006
8	MSAC 2006-HC1 B3	5,000,000	BBB	Baa3	Synthetic	RMBS Subprime	1/27/2006	HomEq	New Century	BCAP	10/24/2006
9	CVL 2006-4 B	15,000,000	BBB	Baa3	Synthetic	RMBS Subprime	3/17/2006	Countrywide	Countrywide	UBS	10/24/2006
10	CVL 2006-4 B	5,000,000	BBB	Baa3	Synthetic	RMBS Subprime	3/17/2006	Countrywide	Countrywide	BCAP	10/24/2006
11	MLMI 2005-HE1 B3	15,000,000	A-	Ba1	Synthetic	RMBS Midprime	4/21/2005	Wilshire	Accredited Home Lenders	UBS	10/24/2006
12	ARSI 2005-W2 M9	15,000,000	BBB+	Baa3	Synthetic	RMBS Subprime	8/27/2005	Ameriquest	Argent	GS	10/31/2006
13	FHLT 2005-C M9	5,000,000	BBB+	Baa3	Synthetic	RMBS Subprime	7/14/2005	Fremont	Fremont	DB	10/31/2006
14	NHEL 2006-3 M8	5,000,000	BBB+	Baa3	Synthetic	RMBS Subprime	8/28/2006	NovaStar	Novastar	MS	11/3/2006
15	LBMLT 2006-1 M7	10,000,000	A	Ba1	Synthetic	RMBS Midprime	2/7/2006	Washington Mutual	Long Beach	DB	11/2/2006
16	JPMAC 2006-FRE1 M9	10,000,000	BBB-	Baa3	Synthetic	RMBS Midprime	1/27/2006	Chase	Fremont	MS	11/10/2006
17	JPMAC 2006-FRE1 M9	5,000,000	BBB-	Baa3	Synthetic	RMBS Midprime	1/27/2006	Chase	Fremont	DB	11/10/2006
18	HEAT 2006-7 B1	10,000,000	BBB	Baa3	Synthetic	RMBS Midprime	10/3/2006	SPS	Encore Credit Corp (41.1%, Ownit Mortgage Solutions 24.0%, Lime Financial Services 20.4%	DB	11/13/2006
19	HEAT 2006-7 B1	5,000,000	BBB	Baa3	Synthetic	RMBS Midprime	10/3/2006	SPS	Encore Credit Corp (41.1%, Ownit Mortgage Solutions 24.0%, Lime Financial Services 20.4%	DB	11/28/2006
20	GSAMP 2006-NC2 M9	10,000,000	BBB-	Baa3	Synthetic	RMBS Subprime	6/26/2006	Ocwen	New Century	JPM	11/13/2006
21	HEAT 2006-5 B1	15,000,000	BBB	Baa3	Synthetic	RMBS Midprime	6/25/2006	SPS	Equifirst 15.5%, Encore 13.7%	CITI	11/15/2006
22	LBMLT 2006-3 M8	15,000,000	BBB	Baa2	Synthetic	RMBS Midprime	9/7/2005	Washington Mutual	Long Beach	DB	10/24/2006
23	LBMLT 2006-1 M7	10,000,000	A	Baa1	Synthetic	RMBS Midprime	2/7/2006	Washington Mutual	Long Beach	CITI	11/2/2006
24	NAMS 2006-HC1 M9	15,000,000	BBB	Baa3	Synthetic	RMBS Subprime	2/24/2006	Wells Fargo	New Century	DB	11/28/2006
25	MLMI 2006-AHL1 B3	20,000,000	BBB-	Baa3	Synthetic	RMBS Midprime	8/29/2006	Wilshire	ML Mortgageinvestors, AHL	DB	12/8/2006
26	MSAC 2006-HE8 B3	20,000,000	BBB-	Baa3	Synthetic	RMBS Subprime	6/30/2006	Countrywide	New Century 62.35%, Decision One 31.84%, WMC 5.86%	DB	12/6/2006
27	SABR 2005-FR4 B3	20,000,000	BBB-	Baa3	Synthetic	RMBS Midprime	9/29/2005	Countrywide	Fremont	DB	12/8/2006
28	RASC 2006-KS3 M9	20,000,000	BBB+	Baa3	Synthetic	RMBS Subprime	3/29/2006	HomeComings	40.33% EMC, 19% Peoples Choice*, 13.18% HomeComings	BCAP	12/8/2006
29	RASC 2006-KS3 M9	10,000,000	BBB+	Baa3	Synthetic	RMBS Subprime	3/29/2006	HomeComings	40.33% EMC, 19% Peoples Choice*, 13.18% HomeComings	DB	12/8/2006
30	BNLI 2006-1A B	15,000,000	AA	Aa2	Synthetic	CDO	3/30/2006	Babcock & Brown		CITI	12/18/2006
31	WAUS 2006-1A B	15,000,000	AA	Aa2	Synthetic	CDO	9/28/2006	Hartford Investment		CITI	12/18/2006
32	GSAMP 2006-NC2 M9	10,000,000	BBB-	Baa3	Synthetic	RMBS Subprime	6/26/2006	Ocwen	New Century	DB	12/8/2006
33	LBMLT 2004-2 M7	10,000,000	BBB-	Baa3	Synthetic	RMBS Midprime	5/4/2004	Washington Mutual	Long Beach	DB	12/14/2006
34	ACE 2006-HC1 M9	10,000,000	BBB+	Baa3	Synthetic	RMBS Midprime	1/30/2006	Saxon	New Century	CITI	12/18/2006
35	CMLTI 2006-HC1 M9	15,000,000	BBB-	Baa3	Synthetic	RMBS Subprime	6/29/2006	Wells Fargo	New Century	CITI	12/18/2006
36	CMLTI 2006-HC1 M9	10,000,000	BBB-	Baa3	Synthetic	RMBS Subprime	6/29/2006	Wells Fargo	New Century	JPM	12/19/2006
37	SURF 2006-AB1 B3	15,000,000	A-	Ba3	Synthetic	RMBS Midprime	2/23/2006	Wilshire	SURF Program	GS	12/19/2006
38	MSC 2006-HE2 B3	10,000,000	BBB	Baa3	Synthetic	RMBS Midprime	4/28/2006	Wells Fargo	WMC 72.84%, Decision One 27.16%	BOA	12/19/2006

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1347

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Index	Ticker	Original Face	S&P Final Rating	Moody's Final Rating	Synthetic / Cash	Specified Type	Issue Date	Servicer / Manager	Originator	Counterparty	Trade Date
39	MSC 2006-HE2 B3	15,000,000	BBB	Baa3	Synthetic	RMBS Midprime	4/28/2006	Wells Fargo	WMC 72.84%, Decision One 27.16%	GS	12/19/2006
40	OOMLT 2006-1 M9	10,000,000	A	Baa3	Synthetic	RMBS Midprime	2/3/2006	Option One	Option One	DB	12/19/2006
41	OOMLT 2006-1 M9	10,000,000	A	Baa3	Synthetic	RMBS Midprime	2/3/2006	Option One	Option One	DB	12/18/2006
42	JPMAC 2006-NC1 M9	15,000,000	BBB-	Baa3	Synthetic	RMBS Subprime	4/27/2006	Chase	New Century	JPM	12/19/2006
43	GSAMP 2006-NC2 M9	10,000,000	BBB-	Baa3	Synthetic	RMBS Subprime	6/29/2006	Ocwen	New Century	GS	12/21/2006
44	GSAMP 2006-FM2 M9	10,000,000	BBB	Baa3	Synthetic	RMBS Midprime	9/29/2006	Fremont	Fremont	GS	12/21/2006
45	LBMLT 2006-5 M9	5,000,000	BBB+	Baa3	Synthetic	RMBS Midprime	6/15/2006	Washington Mutual	Long Beach	GS	12/21/2006
46	MABS 2006-NC1 M9	10,000,000	BBB	Baa3	Synthetic	RMBS Subprime	2/24/2006	Wells Fargo	New Century	GS	12/21/2006
47	WFHET 2006-1 M9	25,000,000	BBB+	Baa3	Synthetic	RMBS Subprime	5/30/2006	Wells Fargo	Wells Fargo	GS	12/21/2006
48	SURF 2006-AB1 B2	10,000,000	A+	Baa2	Synthetic	RMBS Midprime	2/23/2006	Wilshire	SURF Program	ML	1/4/2007
49	FFML 2006-FF1 M8	10,000,000	A	Baa2	Synthetic	RMBS Midprime	1/27/2006	National City	First Franklin	DB	1/4/2007
50	OOMLT 2006-1 M8	10,000,000	A+	Baa2	Synthetic	RMBS Midprime	2/3/2006	Option One	Option One	ML	1/4/2007
51	MSAC 2006-NC1 B2	10,000,000	BBB+	Baa2	Synthetic	RMBS Subprime	1/27/2006	HomEq	New Century	UBS	1/4/2007
52	HASC 2006-OPT2 M8	5,000,000	BBB+	Baa2	Synthetic	RMBS Midprime	2/28/2006	Option One	Option One	Barclays	1/4/2007
53	MABS 2005-NC2 M9	10,000,000	A	Baa3	Synthetic	RMBS Midprime	11/29/2005	Ocwen		GS	1/17/2007
54	HEAT 2006-5 B1	10,000,000	BBB	Baa3	Synthetic	RMBS Midprime	6/25/2006	SPS	Equifirst 15.5%, Encore 13.7%	GS	1/17/2007
55	FFML 2006-FF13 M9	10,600,000	BBB+	Baa3	Synthetic	RMBS Midprime	9/28/2006	National City	GS Mortgage Securities		3/15/2007
56	SLMA 2006-B C	20,000,000	A	A2	Cash	Student Loans	6/6/2006	Sallie Mae		DB	10/30/2006
57	NCSLT 2006-3 C	8,000,000	A	A3	Cash	Student Loans	9/28/2006	Pennsylvania Higher Education		DB	10/30/2006
58	TMTS 2006-6 1A2	15,000,000	AAA	Aaa	Cash	RMBS Midprime	6/1/2006	SLS	Terwin Securitization	DB	10/30/2006
59	TMTS 2006-8 1A2	15,000,000	AAA	Aaa	Cash	RMBS Midprime	8/1/2006	SLS	Terwin Securitization	DB	10/30/2006
60	HEAT 2006-7 M7	4,125,000	A-	Baa1	Cash	RMBS Midprime	10/3/2006	SPS	Ownit Mortgage Solutions 24.0%	DB	10/30/2006
61	SURF 2006-AB3 B1	2,550,000	BBB+	Baa1	Cash	RMBS Midprime	9/26/2006	Wilshire	SURF Program	DB	10/30/2006
62	HEAT 2006-7 B1	4,125,000	BBB	Baa3	Cash	RMBS Midprime	10/3/2006	SPS	Ownit Mortgage Solutions 24.0%	DB	10/30/2006
63	SURF 2006-AB3 B3	4,250,000	BBB-	Baa3	Cash	RMBS Midprime	9/26/2006	Wilshire	SURF Program	DB	10/30/2006
64	FHLT 2005-A M9	1,006,000	BBB-	Baa3	Cash	RMBS Subprime	2/22/2005	Fremont	Fremont	DB	10/30/2006
65	FFML 2006-FF13 B1	11,668,000	BBB	Ba1	Cash	RMBS Midprime	9/28/2006	National City	GS Mortgage Securities	DB	10/30/2006
66	GSAMP 2006-FM2 B1	6,131,000	BBB-	Ba1	Cash	RMBS Midprime	9/1/2006	Fremont	Fremont	DB	10/30/2006
67	SVHE 2006-EQ1 M10	6,746,000	BB+	Ba1	Cash	RMBS Midprime	9/15/2006	Saxon	EFC Holdings Corp	DB	10/30/2006
68	LBMLT 2005-1 B1	3,000,000	BB+	Ba1	Cash	RMBS Midprime	1/6/2005	Washington Mutual	Long Beach	DB	10/30/2006
69	DBALT 2006-AR4 M8	6,142,000	BBB-	Ba2	Cash	RMBS Prime	9/29/2006	Countrywide	DBALT / Countrywide apx 50%	DB	10/30/2006
70	AMSI 2005-R1 M9	5,000,000	BB	Ba1	Cash	RMBS Subprime	2/23/2005	Ameriquest	Ameriquest	HBK	11/17/2006
71	FFML 2006-FF13 B2	10,000,000	BBB-	Ba2	Cash	RMBS Midprime	9/28/2006	National City	GS Mortgage Securities	HBK	11/17/2006
72	FFML 2005-FF2 B5	2,397,000	BB+	Ba2	Cash	RMBS Midprime	4/28/2005	National City	First Franklin	HBK	11/17/2006
73	FFML 2006-FF3 B2	2,915,000	BBB	Ba2	Cash	RMBS Midprime	2/23/2006	National City	First Franklin	HBK	11/17/2006
74	FFML 2006-FF4 B2	2,000,000	BBB	Ba1	Cash	RMBS Midprime	3/30/2006	National City	First Franklin	DB	10/31/2006
75	FFML 2005-FF8 B5	8,000,000	BBB-	Ba2	Cash	RMBS Midprime	9/29/2005	National City	First Franklin	HBK	12/11/2006
76	WFHET 2005-3 M11	6,759,000	BBB+	Ba2	Cash	RMBS Midprime	11/29/2005	Wells Fargo	Wells Fargo	HBK	12/11/2006
77	WFHET 2006-1 M11	4,000,000	BB+	Ba2	Cash	RMBS Subprime	5/30/2006	Wells Fargo	Wells Fargo	HBK	12/11/2006
78	AMSI 2005-R1 M10	4,000,000	BB	Ba2	Cash	RMBS Subprime	2/23/2005	Ameriquest	Ameriquest	HBK	12/18/2006
79	FHLT 2005-D B2	3,000,000	BBB	Ba2	Cash	RMBS Midprime	11/18/2005	Fremont	Fremont	HBK	12/18/2006
80	GSAMP 2006-FM1 B4	3,000,000	BB+	Ba2	Cash	RMBS Subprime	4/27/2006	Wells Fargo	Fremont	HBK	12/18/2006
81	GSAMP 2006-FM2 B2	10,217,000	BB+	Ba2	Cash	RMBS Midprime	9/1/2006	Fremont	Fremont	HBK	12/18/2006
82	HEAT 2005-8 B3	4,500,000	BBB	Ba2	Cash	RMBS Subprime	12/1/2005	SPS	n/a	HBK	12/18/2006
83	HEAT 2005-8 B3	7,500,000	BBB-	Ba2	Cash	RMBS Midprime	11/1/2005	SPS	People's Choice 19.0%	HBK	12/18/2006
84	GSAMP 2006-NC2 B2	8,815,000	BB+	Ba2	Cash	RMBS Subprime	6/29/2006	Ocwen	New Century	HBK	12/18/2006
85	FFML 2006-FF13 B2	6,216,000	BBB-	Ba2	Cash	RMBS Midprime	9/28/2006	National City	GS Mortgage Securities	HBK	1/9/2007

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Index	Ticker	Original Face	S&P Final Rating	Moody's Final Rating	Synthetic / Cash	Specified Type	Issue Date	Servicer / Manager	Originator	Counterparty	Trade Date
86	FFML 2004-FFC B4	3,000,000	BB	Ba2	Cash	RMBS Midprime	12/28/2004	Wilshire	First Franklin	HBK	1/9/2007
87	HEAT 2006-3 B3	14,000,000	BBB-	Ba2	Cash	RMBS Midprime	3/30/2006	SPS	Decision One 15.7%,	HBK	1/8/2007
88	HEAT 2006-5 B3	2,500,000	BBB-	Ba2	Cash	RMBS Midprime	6/25/2006	SPS	Equifirst 15.5%, Encore 13.7%	HBK	1/16/2007
89	HEAT 2006-7 B3	11,000,000	BB+	Ba2	Cash	RMBS Midprime	10/3/2006	SPS	Ownit Mortgage Solutions 24.0%,	HBK	1/16/2007
90	ARSI 2005-W2 M12	14,000,000	BBB-	Ba2	Cash	RMBS Subprime	9/27/2005	Ameriquest	Argent	HBK	1/16/2007
91	AMSI 2005-R9 M9	5,000,000	BBB-	Ba2	Cash	RMBS Midprime	10/27/2005	Ameriquest	Ameriquest	HBK	1/16/2007
92	HEAT 2005-8 B4	11,250,000	BBB-	Ba2	Cash	RMBS Midprime	11/1/2005	SPS	People's Choice 19.0%,	HBK	1/16/2007
93	ARSI 2005-W3 M12	8,000,000	BBB-	Ba2	Cash	RMBS Subprime	10/28/2005	Ameriquest	Argent	HBK	1/16/2007
94	FFML 2005-FF8 B5	7,945,000	BBB-	Ba2	Cash	RMBS Midprime	9/29/2005	National City	First Franklin	HBK	1/17/2007
95	LBMLT 2004-4 M12	9,500,000	BBB-	Ba2	Cash	RMBS Midprime	9/8/2004	Washington Mutual		HBK	1/22/2007
96	JPMAC 2006-CH1 M9	1,200,000	BBB-	Baa3	Cash	RMBS Subprime	11/14/2006	Chase	JP Morgan	JPM	10/26/2006
97	JPMAC 2006-CH1 M10	2,898,000	BB+	Ba1	Cash	RMBS Subprime	11/14/2006	Chase	JP Morgan	JPM	10/26/2006
98	BAYC 2006-4A B1	1,700,000	BBB	Baa1	Cash	CMBS Conduit	10/30/2006	M & T MORTGAGE CORP.		ML	10/24/2006
99	ABSHE 2006-HE1 M7	5,000,000	A	Baa1	Cash	RMBS Subprime	2/5/2006	SPS	Option One	ML	11/6/2006
100	HEAT 2005-8 M7	7,250,000	A-	Baa1	Cash	RMBS Midprime	11/1/2005	SPS	People's Choice 19.0%,	ML	11/14/2006
101	SGMS 2006-OPT2 M4	4,000,000	A+	A1	Cash	RMBS Subprime	12/14/2006	Wells Fargo	Option One	SOCGEN	11/16/2006
102	SGMS 2006-OPT2 M7	1,650,000	BBB+	Baa1	Cash	RMBS Subprime	12/14/2006	Wells Fargo	Option One	SOCGEN	11/16/2006
103	MSAC 2006-HE8 M4	9,000,000	A+	A1	Cash	RMBS Midprime	11/29/2006	Countrywide	Decision One 26.83%,	MS	11/16/2006
104	BACM 2006-6 D	8,000,000	A	A2	Cash	CMBS Conduit	11/1/2006	Bank of America		BOFA	11/20/2006
105	BACM 2006-6 E	5,777,000	A-	A3	Cash	CMBS Conduit	11/1/2006	Bank of America		BOFA	11/20/2006
106	DBALT 2006-AR6 M10	8,820,000	BBB-	Baa2	Cash	RMBS Prime	12/15/2006	GMAC	Deutsche Securities	DB	11/30/2006
107	NCSLT 2006-4 C	11,000,000	A	A3	Cash	Student Loans	12/7/2006	Pennsylvania Higher Education		GS	11/29/2006
108	RAMP 2005-RS7 B	4,500,000	BB+	Ba1	Cash	RMBS Subprime	8/5/2005	GMAC	GMAC	GS	11/13/2006
109	FHLT 2006-E M7	16,043,000	BBB+	Baa1	Cash	RMBS Midprime	12/6/2006	Fremont	Fremont	GS	11/16/2006
110	JPMAC 2006-CH2 MV4	6,000,000	A+	A1	Cash	RMBS Midprime	12/14/2006	Chase	JP Morgan	JPM	11/21/2006
111	OMTS 2006-OT1 M3	8,190,000	A	A3	Cash	RMBS Midprime	12/8/2006	SLS	Terwin Securitization	CALYON	12/1/2006
112	TMTS 2006-17HE M4	3,488,000	BBB+	Baa3	Cash	RMBS Midprime	12/15/2006	SLS	Terwin Securitization	TERWIN	12/7/2006
113	FFML 2005-FF1 B4	2,549,000	BBB-	Ba1	Cash	RMBS Midprime	2/24/2005	Saxon	First Franklin	DB	12/7/2006
114	SABR 2005-OP1 B4	5,500,000	BB+	Ba1	Cash	RMBS Subprime	3/24/2005	Option One	Option One	DB	12/7/2006
115	AMSI 2005-R11 M10	5,000,000	BBB-	Ba2	Cash	RMBS Subprime	12/20/2005	Ameriquest	Ameriquest	DB	12/12/2006
116	JPMCC 2006-LDP9 D	2,500,000	A	A2	Cash	CMBS Conduit	12/1/2006	Midland Loan Services, Wachovia, Capmark		JPM	12/15/2006
117	JPMCC 2006-LDP9 E	4,000,000	A-	A3	Cash	CMBS Conduit	12/1/2006	Midland Loan Services, Wachovia, Capmark		JPM	12/15/2006
118	RAMC 2006-4 M4	4,687,000	A+	A1	Cash	RMBS Subprime	12/1/2006	Ocwen	Renaissance	RBS	12/1/2006
119	RAMC 2006-4 M7	6,000,000	BBB+	Baa1	Cash	RMBS Subprime	12/1/2006	Ocwen	Renaissance	RBS	12/1/2006
120	ACE 2006-HE1 M10	10,000,000	BBB	Ba1	Cash	RMBS Midprime	2/28/2006	Wells Fargo	Fremont 75.75%, Ownit 10.82%	DB	12/19/2006
121	BSABS 2007-HE1 2M10	7,391,000	BB+	Baa3	Cash	RMBS Subprime	1/30/2007	EMC		BS	1/23/2007
122	BAYC 2007-1 B1	4,500,000	BBB	Baa1	Cash	CMBS Conduit	2/2/2007	M & T MORTGAGE CORP.		CITI	1/25/2007
123	ACE 2006-NC1 M10	1,500,000	BBB	Ba1	Cash	RMBS Midprime	1/30/2006	Saxon		GS	2/7/2007
124	HEAT 2005-8 B2	1,000,000	BBB+	Ba1	Cash	RMBS Midprime	11/1/2005	SPS		GS	2/7/2007
125	GSAMP 2007-NC1 B1	12,500,000	BB+	Ba1	Cash	RMBS Subprime	2/20/2007	Avelo	New Century	GS	2/7/2007
126	GCCFC 2007-GG9 F	3,500,000	A	A2	Cash	CMBS Conduit	3/1/2007	LNR Partners		Greenwich	2/21/2007
127	EULER 2007-1A B	15,000,000	AA	Aa2	Cash	CDO	3/27/2007	Babcock & Brown		ML	2/22/2007
128	JPMCC 2007-CB18 D	3,000,000	A	A2	Cash	CMBS Conduit	3/7/2007	Midland Loan Services, Wachovia, Capmark		JPM	2/23/2007
129	AMSI 2005-R11 M10	3,500,000	BBB-	Ba2	Cash	RMBS Subprime	12/20/2005	Ameriquest	Ameriquest		3/15/2007

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Gemstone CDO VII, Ltd.

Debt Investor Presentation

January 2007

Deutsche Bank Securities Inc., a subsidiary of Deutsche Bank AG, conducts investment banking and securities activities in the United States.

A Passion to Perform.

Deutsche Bank

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1348

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IMPORTANT NOTICE

THE INFORMATION CONTAINED IN THIS CONFIDENTIAL INFORMATION MEMORANDUM (THE "INVESTOR PRESENTATION") IS BEING FURNISHED TO SELECT PROSPECTIVE INVESTORS ON A CONFIDENTIAL BASIS FOR THE PURPOSE OF PROVIDING CERTAIN INFORMATION ABOUT HBK INVESTMENTS L.P. ("HBK" OR THE "COLLATERAL MANAGER") AND ITS AFFILIATES AND CERTAIN CONTRACTUAL ARRANGEMENTS MANAGED BY HBK. THIS INVESTOR PRESENTATION MAY NOT BE REPRODUCED OR PROVIDED TO OTHERS WITHOUT THE PRIOR WRITTEN PERMISSION OF THE COLLATERAL MANAGER.

THIS INVESTOR PRESENTATION CONTAINS INFORMATION WHICH HAS BEEN PROVIDED BY A NUMBER OF SOURCES, INCLUDING CERTAIN PERSONNEL OF HBK. IN ADDITION, THE RESULTS OF CERTAIN FINANCIAL MODELS ARE CONTAINED HEREIN. FORWARD LOOKING DATA, SUCH AS THE RESULTS OF THE FINANCIAL MODELS, ARE INHERENTLY UNCERTAIN, AND NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, IS MADE BY DEUTSCHE BANK SECURITIES INC. OR DEUTSCHE BANK AG, LONDON (COLLECTIVELY, INCLUDING ANY OF ITS AFFILIATES, "DB") OR HBK WITH RESPECT TO SUCH MODELS OR THE ASSUMPTIONS, HYPOTHETICAL RESULTS, ESTIMATES, HYPOTHETICAL PERFORMANCE ANALYSIS OR OTHER FINANCIAL INFORMATION CONTAINED IN SUCH MODELS. ACTUAL RESULTS MAY VARY MATERIALLY FROM THE HYPOTHETICAL RESULTS CONTAINED HEREIN. ASSUMPTIONS INVOLVE SIGNIFICANT ELEMENTS OF SUBJECTIVE JUDGMENTS AND ANALYSES AND CHANGES THERETO AND/OR CONSIDERATION OF DIFFERENT OR ADDITIONAL FACTORS COULD HAVE A MATERIAL IMPACT ON THE RESULTS INDICATED. EACH RECIPIENT HEREOF MUST MAKE ITS OWN EVALUATION OF SUCH FINANCIAL MODELS (INCLUDING THE ASSUMPTIONS ON WHICH THEY ARE BASED). NEITHER DB NOR HBK ASSUMES ANY RESPONSIBILITY FOR THE ACCURACY OR VALIDITY OF SUCH FINANCIAL MODELS OR THE ASSUMPTIONS, HYPOTHETICAL RESULTS, ESTIMATES, HYPOTHETICAL PERFORMANCE ANALYSIS OR ANY OTHER FINANCIAL INFORMATION CONTAINED IN SUCH MODELS. NOTHING CONTAINED HEREIN SHALL CONSTITUTE ANY REPRESENTATION OR WARRANTY AS TO FUTURE PERFORMANCE.

THIS PRESENTATION IS FOR INFORMATIONAL PURPOSES ONLY AND IS BEING FURNISHED ON A CONFIDENTIAL BASIS TO A LIMITED NUMBER OF ELIGIBLE INVESTORS. THE INFORMATION AND DATA AT A PROSPECTIVE INVESTOR MAY BE REQUESTED TO BE INCLUDED OR CONTAIN ALL OF THE INFORMATION AND DATA THAT A PROSPECTIVE INVESTOR MAY DEEM MATERIAL TO ITS DECISION TO INVEST IN THE NOTES OR SUBORDINATED INTERESTS. ACCORDINGLY, PROSPECTIVE INVESTORS SHOULD CONDUCT THEIR OWN INDEPENDENT INVESTIGATION AND ANALYSIS OF AN INVESTMENT IN THE NOTES OR SUBORDINATED INTERESTS AND THE INFORMATION AND DATA SET FORTH HEREIN. THIS PRESENTATION IS NOT AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY SECURITY. ANY SUCH OFFERING MAY BE MADE ONLY BY AN OFFERING CIRCULAR RELATED TO THE NOTES OR SUBORDINATED INTERESTS (THE "OFFERING CIRCULAR") AND THE INFORMATION CONTAINED HEREIN IS SUPERSEDED IN ITS ENTIRETY BY SUCH OFFERING CIRCULAR IN FINAL FORM. INVESTORS SHOULD REVIEW THE OFFERING CIRCULAR PRIOR TO MAKING AN INVESTMENT DECISION. THE INFORMATION CONTAINED HEREIN IS CONFIDENTIAL AND MAY NOT BE DIVULGED TO ANY PERSON OR ENTITY OR REPRODUCED, DISSEMINATED OR DISCLOSED IN WHOLE OR IN PART. SHOULD THE RECIPIENT DECLINE TO INVEST IN THE NOTES OR SUBORDINATED INTERESTS, IT SHALL RETURN THIS INVESTOR PRESENTATION AND ANY OTHER MATERIALS SUPPLIED BY DB AS SOON AS POSSIBLE AND, IN ANY OTHER EVENT, UPON REQUEST, DESTROY ALL COPIES AND EXTRACTS, AND DELETE ALL COMPUTER FILES. NEITHER DB NOR HBK MAKES ANY REPRESENTATION WITH RESPECT TO A POTENTIAL INVESTOR'S REGULATORY OR ACCOUNTING TREATMENT. INVESTORS MUST RELY UPON THEIR OWN EXAMINATION OF THE TERMS OF THE NOTES AND SUBORDINATED INTERESTS AND UPON HIS OR HER OWN REPRESENTATIVES AND PROFESSIONAL ADVISORS, INCLUDING LEGAL COUNSEL AND ACCOUNTANTS AS TO THE REGULATORY AND ACCOUNTING TREATMENT, SUITABILITY FOR SUCH INVESTOR, AND OTHER ASPECTS OF AN INVESTMENT IN THE NOTES OR SUBORDINATED INTERESTS.

THE SECURITIES DESCRIBED HEREIN HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, (THE "1933 ACT") OR THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED OR ANY STATE OR FOREIGN SECURITIES LAWS, AND WILL BE OFFERED AND SOLD ONLY TO "QUALIFIED INSTITUTIONAL BUYERS" (AS DEFINED IN RULE 144A UNDER THE 1933 ACT) OR "QUALIFIED PURCHASERS" WITHIN THE MEANING OF SECTION 3(C)(7) OF THE INVESTMENT COMPANY ACT OF 1940 WHO ARE EITHER DEFINED IN RULE 501(A)(1), (2), (3) OR (7) UNDER THE 1933 ACT OR (2) NON-U.S. PERSONS WHO PURCHASE OUTSIDE THE UNITED STATES PURSUANT TO REGULATION S UNDER THE 1933 ACT.

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS. ANY INFORMATION HEREIN REGARDING OTHER TRANSACTIONS IS FROM A DIFFERENT TIME PERIOD AND HAS UNIQUE CHARACTERISTICS. SUCH INFORMATION IS NOT INDICATIVE OF THE CHARACTERISTICS OR PERFORMANCE OF THE CURRENT TRANSACTION. THE ANALYSES CONTAINED HEREIN PRESENTS HYPOTHETICAL RESULTS WHICH MAY NOT BE ATTAINABLE.

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Appendix

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Section 1

Executive Summary

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Executive Summary

Section 1

Opportunity Overview

- $1.1 billion partially static mezzanine ABS CDO to be managed by HBK Investments L.P. and its affiliated subsidiaries ("HBK")
  - Predominantly RMBS (~88.6%) with smaller allocations to ABS CDOs (~4.5)%, Student Loans (~3.5)% and CMBS (~3.3)%
  - Static [27.9]% non-investment grade asset bucket (minimum rating of Ba2/BB) – only RMBS assets
  - Pure sequential pay-down structure and with coverage tests
  - Optional call after year 2; auction call after year 7.75
  - As with all its prior CDOs, HBK will purchase 100% of the Equity in Gemstone CDO VII
- De-levering, partially static structure
  - 3-year limited reinvestment period – only investment-grade asset amortizations can be reinvested
  - Reinvestments can be only be in assets rated Baa3/BBB- or better (investment grade)
  - Static below-investment-grade ("BIG") bucket – principal proceeds on BIG assets are used to amortize the capital structure sequentially
- 15% Credit-impaired double-B substitution bucket during the first 3 years (details on page 7)
  - Credit-impaired double-B assets can be replaced with non-impaired assets with equal or better rating and equal or higher par value
- Credit-risk; Credit-improved and Discretionary (up to 20% per annum) trading permitted on IG assets
- Flexibility to purchase cash and synthetic assets; max 65% synthetic bucket for pay-as-you-go CDS (RMBS and CDOs)
- Triple-B turbo amortizes Class D (Baa2/BBB) using excess interest (otherwise payable to Equity)

Transaction Schedule

Pricing:	mid-Feb
Closing:	mid-Mar
Non-call period ends:	2 yrs
Reinvestment period ends:	3 yrs
Auction calls begin:	7.75 yrs
Reverse turbo begins:	9.75 yrs
Legal final date:	40 yrs

(1) Source: HBK.

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Executive Summary

Section 1

Investment Considerations

HBK is one of the premier investment management firms in the industry

- **Experienced CDO Manager with a strong alignment of economic interest with investors**
  - Gemstone VII will be HBK's eighth ABS CDO. HBK has successfully brought to market 7 ABS CDOs totaling $3.6 billion aggregate issuance
  - HBK is an investment management firm founded in 1991 with equity capital under management of approximately $12 billion[1]. HBK's structured finance team manages $5.0 billion in structured finance securities including $3.6 billion of structured product CDOs, as of November 30th, 2006[1]
  - As with all its prior CDOs, HBK will purchase 100% of the Equity in Gemstone CDO VII

HBK's CDO Program is a key component of the investment and funding strategy of its structured product division

- HBK's investment process integrates expertise in capital markets, structural analysis, collateral and loan-level analysis, due diligence, and in-house surveillance. HBK is seen as not as a trader but as a vigilant investor that maximizes value through intensive analysis and surveillance
- Structured products exhibit relatively stable performance and low default history
  - Favorable Default and Rating History – structured products have exhibited historically low incidence of default and as structures delever these assets become candidates for credit outperformance
  - Good Relative Value – structured products have historically priced and continue to price wider than similarly rated corporates due to liquidity and complexity premium that can be arbitraged through buy-and-hold cash flow CDO structure

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(1) Source: HBK.

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Section 2

Gemstone CDO VII, Ltd.

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Transaction Overview

Pure sequential pay-down structure and with coverage tests

- **$1.1 billion partially static mezzanine ABS CDO**
  - Target portfolio comprised of [88.6]% RMBS, [4.5]% ABS CDOs, [3.3]% CMBS and [3.5]% Student Loans
  - Static [27.9]% non-investment grade bucket comprised of RMBS assets only rated at least Ba2/BB
- **Delevering sequential structure with coverage tests**
  - Amortizations on assets rated below Baa3/BBB- are used to delever structure and pay down notes
  - Amortizations on investment grade assets can be reinvested for 3 years into investment grade assets only
  - Coverage tests trap and divert excess interest to pay down notes and build overcollateralization
- **Credit-impaired Double-B Substitution Bucket**
  - During first 3 years, HBK can substitute up to 15% credit impaired double-B RMBS assets into non-impaired RMBS assets with equal or better rating
  - Principal Balance of new assets should be equal or greater than that of the replaced assets

Triple-B turbo amortizes Class D (Baa2/BBB) using excess interest

Indicative Capital Structure

Class	Rating (MDY's/S&P)	Size ($)	Size (%)	Subord (%)	Avg Life[1]	Legal Final
A[2]	Aaa/AAA	[793,100,000]	[72.0]%	[28.0]%	[5.6] Years	40 years
B	Aa2/AA	[96,900,000]	[8.8]%	[19.2]%	[7.7] Years	40 years
C	A2/A	[71,600,000]	[6.5]%	[12.7]%	[7.8] Years	40 years
D	Baa2/BBB	[57,300,000]	[5.2]%	[7.5]%	[6.1] Years	40 years
E	Ba1/BB+	[18,700,000]	[1.7]%	[5.8]%	[7.8] Years	40 years
Preference Shares[3]	NR	[63,900,000]	[5.8]%			40 years
Total		1,101,500,000	100.0%			

(1) Average Life of tranches calculated to 7.75 year Auction Call (20% of collateral expected to remain outstanding).
(2) Class A may be split into additional tranches based on investor preference.
(3) 100% of Preference Shares retained by the Collateral Manager and not offered.

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Gemstone CDO VII, Ltd.

Portfolio Composition

Portfolio Composition

Moody's Rating Composition[1]

S&P Rating Composition

Asset Type Composition

Initial Asset Type vs Moody's Rating[1]

	Total	Aaa	Aa1	Aa2	Aa3	A1	A2	A3	Baa1	Baa2	Baa3	Ba1	Ba2
RMBS Midprime	50.8%	2.7%				1.4%		0.7%	4.5%	4.5%	20.6%	6.5%	9.8%
RMBS Subprime	36.4%					0.8%			1.1%	0.9%	23.4%	5.1%	5.1%
RMBS Prime	1.4%			4.5%									1.4%
CDO	4.5%						2.3%	0.9%	0.2%				
CMBS Conduit	3.3%						1.8%	1.7%					
Student Loans	3.5%						4.1%	3.4%	5.8%	5.4%	44.0%	11.6%	16.3%
Total	100.0%	2.7%	0.0%	4.5%	0.0%	2.2%							

(1) Assets not explicitly rated by Moody's (approximately 4.8%) are notched in accordance with Moody's notching convention.

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Gemstone CDO VII, Ltd. Section 2

Transaction Highlights

$1.1 billion mezzanine RMBS CDO

100% of equity retained by HBK (or its affiliates)

Ramp-up	The portfolio is expected to be 100% ramped at closing
Management Fee	Senior Management Fee: 30 bps per annum Subordinate Management Fee: none
Limited Reinvestment Period	3 year Limited Reinvestment Period for investment grade assets only Static non-investment grade bucket – these amortizations are used to pay down structure
Triple-B Turbo	During the first 3 years after closing, 20% of the Class D (Baa2/BBB) Notes will be paid down with excess interest proceeds; after the first 3 years, 20% of the excess interest proceeds will be paid to Class D
BB Diversion Test	Excess interest proceeds (otherwise payable to Equity) will pay down Class E (Ba1/BB+) if the Class E Interest Diversion Test fails until it is brought back into compliance
Manager Trading	Max 15% Credit-impaired Double-B Substitution into equal or better rated assets Credit Risk, Credit Improved and Defaulted Assets pursuant to the indenture 20% Discretionary trading on investment-grade assets
Optional Call	2 years
Auction Call	Auction call after 7.75 years, and if unsuccessful, on a semi-annual basis thereafter
Permanent Reverse Turbo after 9.75 years	If auction calls are unsuccessful for two years, equity will not be paid any excess interest proceeds; instead such monies shall be used to pay down outstanding Notes in a reverse order of seniority (Class E, followed by Class D, Class C, Class B, Class A-2, and finally, Class A-1)
Synthetic Assets	Up to 65% of the portfolio may consist of "pay-as-you-go" credit default swaps on RMBS or CDO reference obligations, replicating cash position in the underlying - Fixed Cap will apply to RMBS PAUG CDS; - Variable Cap (and no implied Writedowns) will apply to CDO PAUG CDS The transaction may feature a GIC to invest the cash that collateralizes the PAUG assets

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Transaction Highlights (continued)

Key Collateral Characteristics

	Closing Portfolio	Limit
Floating Rate Assets	[94.1]%	[94.0]% min
Fixed Rate Assets	[5.9]%	[6.0]% max
Synthetic Assets	[54.9]%	[65.0]% max
Moody's WARF	[645] (Baa3/Ba1)	[674] (Baa3/Ba1) max
Moody's Correlation Factor	[21.5]%	[22.6]% max
Moody's Weighted Average Recovery Rate	[25.6]%	[24.0]% min
Weighted Average Spread	[2.34]%	Spread vector covenant
Weighted Average Coupon	[5.36]%	Coupon vector covenant

Coverage Tests

	Overcollateralization			Interest Coverage		
	At Closing	Test	Cushion	At Closing[1]	Test	Cushion
Class A/B OC Test	[123.74]%	[118.74]%	[5.00]%	[142.13]%	[107.00]%	[35.13]%
Class C OC Test	[114.53]%	[110.78]%	[3.75]%	[129.25]%	[103.00]%	[26.25]%
Class D OC Test	[108.09]%	[105.34]%	[2.75]%	[118.44]%	[100.00]%	[18.44]%
Class E Diversion Test	[106.14]%	[104.02]%	[2.12]%			

(1) Interest Coverage at Closing are estimates.

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Eligibility Criteria

Eligibility Criteria (Concentration Limits)	
Ratings Concentration Limits	Max [27.9]% rated below Baa3/BBB- (RMBS only)
Specified Type (Asset Type) Limits	Max [100]% Home Equity, Residential A, and Residential B/C in aggregate Max [10]% CMBS in aggregate Max [10]% CDO in aggregate; all CDOs must be rated Baa3/BBB- or above Other Asset Types subject to additional limitations
Servicer Limits	The aggregate principal balance of all assets serviced by the same Servicer should not exceed [7.5]%, except that the aggregate principal balance may be up to: - [20]% if the Servicer is rated at least Aa3 or SQ1 by Moody's - [10]% if the Servicer is rated below Aa3 and below SQ1 Moody's (2 exceptions may be up to [15]% each) or, the aggregate principal balance may be up to: - [15]% if rated at least AA- or Strong by S&P - [10]% if rated at least A- or Above Average by S&P
Issue (Security/CUSIP-level) Limits	Max [2.5]% Baa3/BBB- or higher (5 exceptions up to [3.0]%) Max [1.25]% for Ba1/BB+ or below (5 exception up to [1.5]%)
Synthetic Security Limits	Max [65]% Synthetic Securities
Fixed Rate Assets	Max [6.0]%

Collateral Haircuts for Class A/B, C and D Overcollateralization Tests

	Initial Level	Allowed Cushion[1]	Haircuts for collaterals over the threshold (Initial + Cushion)
Moody's Ba1/Ba2/Ba3 rated collateral	[27.9]%		[10]%
Moody's B1/B2/B3 rated collateral	[0]%	[5]%[2]	[20]%
Moody's Below B3 rated collateral	[0]%		[50]%
S&P BB+/BB/BB- rated collateral	[12.6]%		[10]%
S&P B+/B/B- rated collateral	[0]%	[5]%[2]	[20]%
S&P Below B- rated collateral	[0]%		[30]%

References to ratings are to Moody's and S&P ratings, as applicable. For a complete description of haircuts, please refer to the Offering Circular.

(1) Allowed Cushion is in addition to the Initial Level of collateral.

(2) Allowed Cushion may be up to [5]% shared between the three major rating categories listed above as long as the total threshold amount is no more than [2.6]% (27.9% + 5.0%) for Moody's and no more than [17.6]% (12.6% + 5.0%) for S&P across all three major rating categories.

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Gemstone CDO VII, Ltd. Section 2

Investment Rationale

Class C/D Expected OC Levels

- **Faster OC Buildup** – Compared with a traditional revolving structure, Gemstone CDO VII builds OC quicker due to the partially static structure and the triple-B turbo feature

Weighted Average Spread Vector

- **Spread Curve Vector**[1] – WAS is expected to decrease over time due to static amortizing BB RMBS assets which have higher spreads. This issue is addressed in Gemstone VII by modeling the WAS as a spread vector that declines over time.

Expected WARF

- **Improved Credit Quality Over Time**[2] – As the BB RMBS assets amortize, investment grade assets will remain, resulting in an overall credit improvement

(1) IG Floating reinvestments are assumed to be in assets with 4 year bullet maturity and spread of 230 bps
(2) IG asset amortizations are assumed to be reinvested in assets that have a WARF equal to the initial WARF of the relevant IG bucket.

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Gemstone CDO VII, Ltd. Section 2

Investment Rationale

Asset Portfolio Amortization

- The credit quality of the portfolio is expected to naturally improve over time due to the static BB bucket and the reinvested investment-grade assets
- The Gemstone VII structure has higher subordination because it does not take credit from rating agencies for the natural WARF improvement and is also conservatively sized to take into account that portfolio spread (WAS) will decline over time

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Gemstone CDO VII, Ltd. Section 2

Breakeven Analysis

Breakevens – to Maturity[1][2][3]

	To PIK		To Break in Yield		To Return of Investment	
	CDR	Cumulative	CDR	Cumulative	CDR	Cumulative
Class A	[24.1]%	[60.1]%	[24.1]%	[60.1]%	[42.2]%	[76.1]%
Class B	[17.3]%	[48.4]%	[17.3]%	[48.4]%	[20.0]%	[53.5]%
Class C	[9.6]%	[32.3]%	[10.2]%	[34.2]%	[12.8]%	[40.1]%
Class D	[3.5]%	[20.2]%	[4.6]%	[25.7]%	[7.9]%	[27.5]%
Class E	[1.4]%	[8.6]%	[3.7]%	[21.4]%	[4.4]%	[24.6]%

(1) Note breakeven analysis assumes: (i) forward LIBOR curve, (ii) base case collateral cash flows, (iii) constant annual defaults occur from the closing date and at the beginning of each collection period with 50% instantaneous recovery, (iv) principal and interest proceeds on cash assets are assumed to be reinvested short term and accrue interest at 3m LIBOR – 0.20%.
(2) 30bps senior collateral management fee, senior ongoing deal expenses: US$250,000 p/a + 0.04% p/a.
(3) To maturity assuming no calls.

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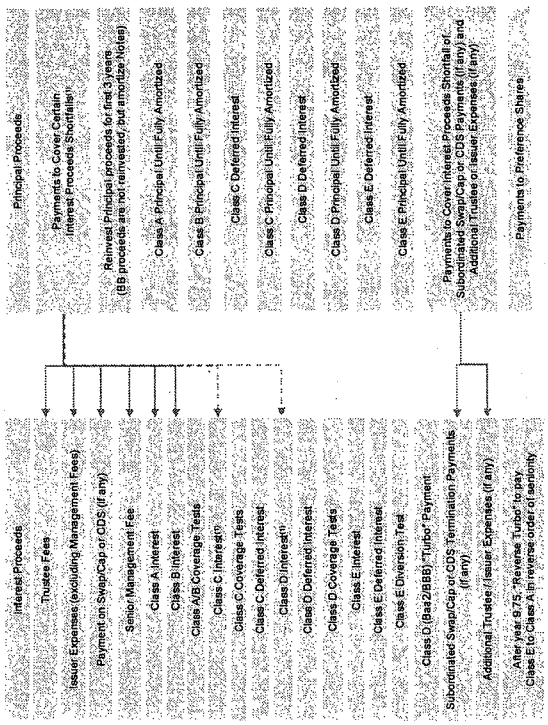
Gemstone CDO VII, Ltd. Section 2

Priority of Payments



(1) Dotted lines signify that Class C & D interest paid from Principal Proceeds contingent upon maintaining OC Levels in compliance.

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Section 3

Collateral Manager Overview – HBK Investments L.P.

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Overview

- HBK Investments L.P. together with its affiliated subadvisors ("HBK") is an investment management firm founded in October 1991 with equity capital under management of approximately $12 billion. HBK's structured finance team manages $5.0 billion in structured finance securities, including $3.6 billion of structured product CDOs, as of November 30, 2006[1]
- HBK's main office is in Dallas, Texas, with affiliated subadvisory offices in New York, London, Hong Kong and Tokyo
- HBK employs approximately 300 individuals in its five offices globally
- HBK's senior management team has been working together since 1994
- The firm strives to provide superior risk-adjusted rates of return with relatively low volatility and relatively low correlation to most major market indices
  - "multi-strategy" approach with a sub-categorization of either "market neutral" or "absolute return"
- From inception through November, 2006, HBK generated a compounded annual return of 12.34%, net of all fees and expenses and assuming reinvestment of all distributions[1][2]
  - positive returns for every consecutive 12-month period in its history
- HBK currently manages seven ABS CDOs
  - CDOs as a term-financing source, not as a fee-generation arbitrage vehicle
  - performance snapshots of prior CDOs are provided in Section 4
  - all junior tranches of Sandstone CDO, HBK's first ABS CDO, have been upgraded a full rating by S&P and are currently on upgrade watch by Moody's

(1) Source: HBK.
(2) Past performance is not indicative of future performance.

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Tab A

Organization and Management

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Investment Structure

- Funds from HBK's investors are invested through one of two feeder funds:
  - HBK Fund L.P. is structured to accommodate qualifying U.S. taxable investors
  - HBK Offshore Fund Ltd. is structured to accommodate U.S. tax exempt investors and non-U.S. investors
- These two funds have combined most of their assets into a single master pool called HBK Master Fund L.P.
- HBK organizes its portfolio positions into a number of business units, each with a different investment strategy
- For analysis and reporting, the business units are aggregated into four main investment groups:
  - Credit: Corporate; Non-Corporate
  - Equity: Event or Spread Driven; Relative Value
  - Volatility, Quantitative and Other
  - Developed Markets Fixed Income
- Investments in U.S. structured products fall under both Credit (Non-Corporate) and Developed Markets Fixed Income depending on the credit rating of the asset in question

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Legal Structure

- HBK Investments L.P. (a Delaware limited partnership) its affiliated subadvisors manage two funds: HBK Fund L.P. (a Delaware limited partnership) and, HBK Offshore Fund Ltd. (a Cayman Islands limited company) and each of which has invested most of its capital in HBK Master Fund L.P. (a Cayman Islands limited partnership)

Source: HBK

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Structured Products Group

- HBK's Structured Products Group is one of the leading purchasers and long-term investors in credit sensitive mortgages
  - the group is responsible for managing the structured products portfolio, including RMBS and ABS, a component in HBK's overall strategy since 2002
- HBK's business model focuses on deriving returns from buy and hold income revenue instead of short-term trading
- HBK's investment model utilizes proprietary default, prepay, and severity loan level models to make investments in the residential market
- CDO program provides long-term committed financing to HBK
- HBK has retained 100% of the equity from CDO transactions resulting in strong alignment of interests between HBK and investors

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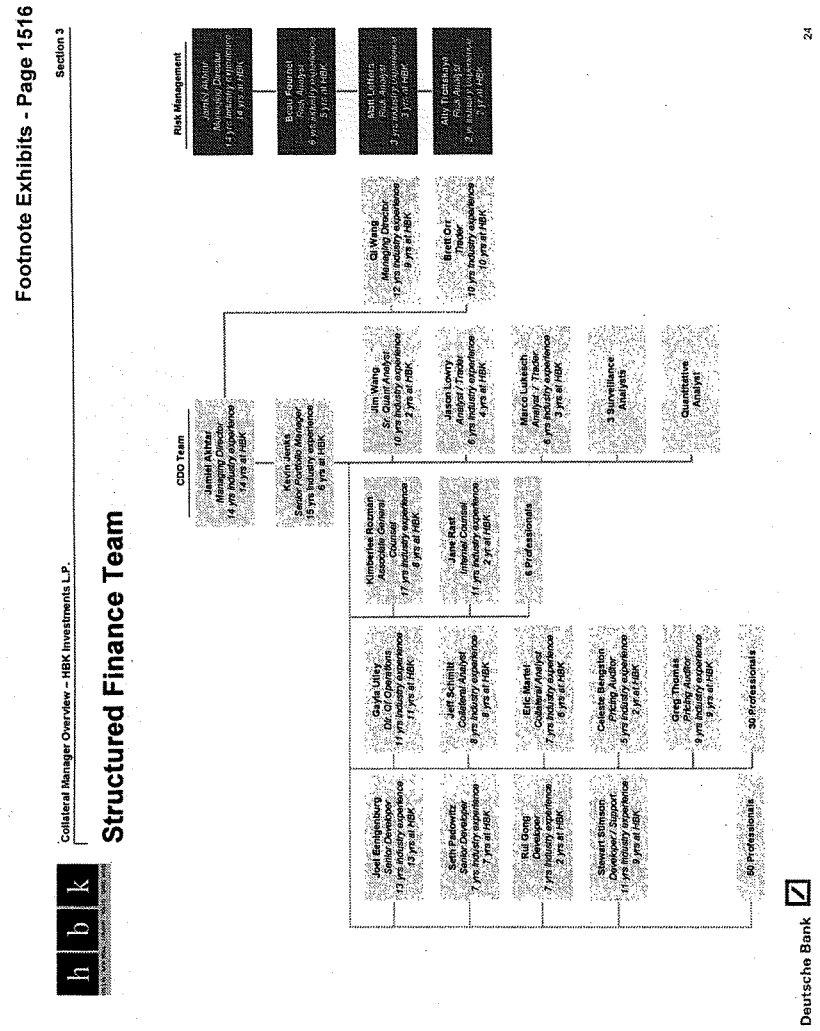

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Structured Products Portfolio

- RMBS / ABS have been a component in HBK's overall strategy since 2002. HBK manages a structured products portfolio of approximately $5.0 billion, including $3.6 billion of structured product CDOs[1]
- HBK follows a buy-and-hold strategy for its ABS investments; HBK hedges the interest rate exposure and retains the credit exposure of its ABS portfolio
- Currently, there are only three downgrades[2] in HBK's ABS portfolio

Asset Type

Rating[3]

(1) As of November 1, 2006
(2) Excluding one either downgraded asset that paid down to par.
(3) A portion of the "NR" assets includes residuals.
Source: HBK

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Tab B

Investment Process

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Collateral Manager Overview – HBK Investments L.P. Section 3

Overview of Structured Products Investment Strategy

HBK Investment Strategy

Multi-Strategy Absolute Return Philosophy

- **Credit: Corporate Investments; Non-Corporate Investments**
- **Equity: Event or Spread Driven Investments; Relative Value Investments**
- **Volatility, Quantitative and Other Investments**
- **Developed Markets Fixed Income Investments**

Allocations made to structured products

US Structured Product Investments

Overweight US Residential Sector
- Higher rates have reduced ABS issuance
- higher relative value and inherent spread pick-up compared to other fixed income markets due to complexity of structures and liquidity premium

Bias Portfolio in Favor of Liquid Asset Classes within Structured Products
- Avoid "unproven" off-the-run asset classes and favor established liquid asset classes
- High granularity of underlying collateral supports actuarial security-level analysis
- Generate portfolio alpha by exploiting technical market inefficiencies through buy-and-hold strategy and not through price-volatility trades

Target Triple-B / Double-B Credit Profile
- Triple-B / Double-B residential assets present best relative value compared to other sectors in structured product market and the broader markets
- Make opportunistic purchases of non-investment grade residential assets where there is clear track record and/or good data transparency
- Emphasize stability of credit and credit ratings

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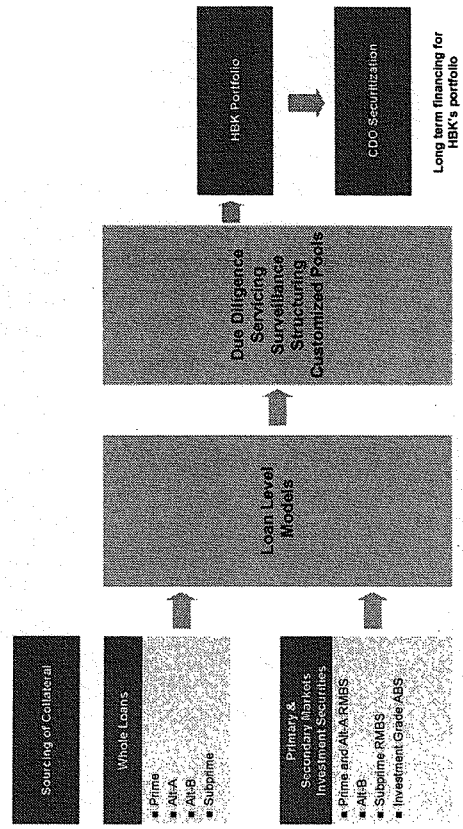
Collateral Manager Overview – HBK Investments L.P.

Investment Model



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Security Selection and Portfolio Management

Investment Origination

Transaction Analysis

Portfolio Construction and Management

■ **Dealers**
- maintain and manage dealer relationships in order to source high quality opportunities for the portfolio
- focus on new issue market
- consider secondary purchases under appropriate circumstances
- purchase loans directly from originators

■ **Originators**
- analyze originators for underwriting consistency and monitor changes to competitive landscape

■ **Servicers**
- review financial condition of servicer
- historical performance
- ease of transferring servicing
- delinquency curing strategies
- loss mitigation

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Security Selection and Portfolio Management (continued)

Investment Origination

Transaction Analysis

Portfolio Construction and Management

■ **Portfolio Construction**
- to mitigate potential impact of any one investment decision on the portfolio, create diversity within portfolio across:
  - transactions
  - originators
  - servicers
  - underwriters
- position portfolio with top issuers and tier one credits

■ **Portfolio Management**
- perform regular surveillance of collateral performance using remittance reports, Intex, Loan Performance, and loan level data from servicers
- maintain ongoing dialogue with originators and servicers
- aggressively pursue exit strategies when investments significantly underperform compared to initial expectations – especially in cases where fraud or servicer "going concern" may be a factor
- collateral performance is monitored and measured to original and subsequent default and loss assumptions

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HBK Investment Approach

Source: HBK

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Ongoing Surveillance and Monitoring

HBK's upgrade to downgrade ratio is 23:3

- HBK's credit files contain the relevant documentation and analysis performed at the time of asset purchase including, where available: offering documents, marketing material, rating agency reports, collateral stratifications, loan-level information and performance, servicer reports, and sensitivity analysis (movements in interest curves, prepayments, defaults)
- Transaction performance is tracked monthly via trustee surveillance reports and ongoing loan-level information to monitor and analyze parameters such as collateral yields, delinquency and default trends, recoveries, prepayments, and available credit enhancement
- Updated stress analysis performed on underperforming transactions to review adequacy of credit enhancement under various probabilistic scenarios to analyze potential losses and make a sell or hold decision
- News monitoring for headline risk (related to originators and servicers) including changes in senior unsecured ratings or stock prices
- On-site servicer due-diligence on an ongoing basis and when required on a per deal basis on below-investment-grade securities
- Systems used for monitoring include: Intex, Bloomberg, iCDO, YieldBook, ABSNet, RiskSpan, Loan Performance and HBK's proprietary loan-level loss, default and prepayment models

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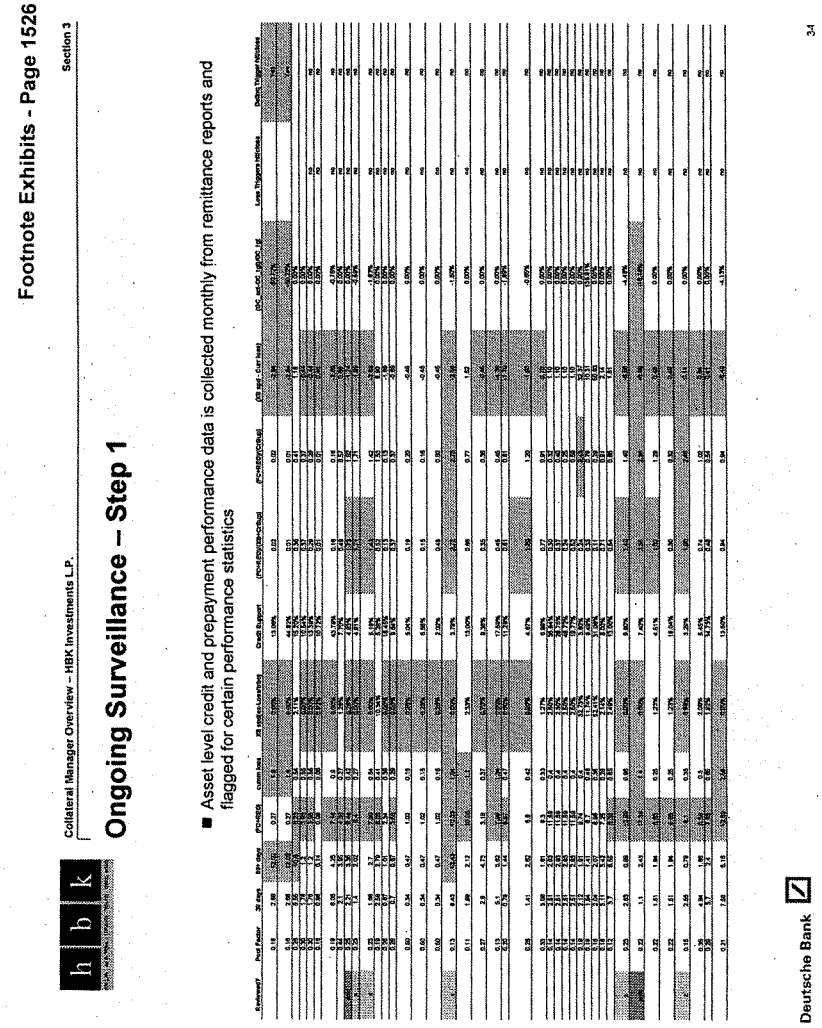

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Ongoing Surveillance – Step 1 (continued)

- Bonds are compared monthly to the entire market on a number of different factors based on loan level performance

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Ongoing Surveillance – Step 3

- Asset and loan data are cross-checked and compared to initial assumptions and to cohort group to identify performance deviation

Deal Performance vs. Cohort and Forecast

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h b k

Collateral Manager Overview – HBK Investments L.P. Section 3

Rating Stability in HBK's ABS CDOs

- The quality of the underlying collateral of HBK's previous ABS CDOs is reflected in a stable or improved Moody's WARF since inception

Moody's WARF Change Since Closing

Note: Sufficient data points for Gemstone CDO VI are not yet available to chart historical performance.
Source: HBK and Trustee Reports, as of December 2006 reports.

Deutsche Bank

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Improving Coverage Ratios in HBK's ABS CDOs[1]

(1) Graphs depict actual overcollateralization ("OC") ratios over time for each of Sandstone CDO and Gemstone CDO through Gemstone CDO V. Each transaction's historical OC ratio calculated using information from each transaction's respective trustee reports was indexed to 100% by dividing each transaction's historical OC ratio by the respective transaction's original OC ratio. Gemstone VI is not included as it was recently closed and sufficient data is not available.
(2) Gemstone II Class C/D OC data points are graphed as Class C OC levels for consistency.
(3) Gemstone II Class E OC data points are graphed as Class D OC levels for consistency.

Source: HBK and Trustee Reports, as of December 2006 reports.

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Tab C

HBK Analytic Systems

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HBK Analytics

- HBK's proprietary Default/Prepay and Severity MSA-level model allows for predictive power of future deal performance
- Because all whole loan packages and every primary deal issued in the market is analyzed, in addition to our loan level surveillance systems, HBK is able to pick up on trends before they adversely impact the CDO
- Due to size and trading volume, HBK works with dealers and originators to customize pools by kicking out problem loans
- As a significant buyer of residuals, HBK also purchases much of the capital structure of those particular RMBS names
  - CDO buyers' interests are closely aligned with HBK's interests as HBK has considerable exposure to the same or lower rated bonds in our CDOs
- HBK now has the ability to monitor the portfolio performance through a Blackberry globally

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Proprietary Systems

- HBK analyzes every bond in the market, providing for a vast range of data as well as meaningful comparison both on an absolute and a relative basis
- From this data, trends can be observed early regarding the bonds themselves as well as the general economy and the implications on future issuance

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Proprietary Cashflow Systems

- Based on existing loan and economic data, HBK's models generate multiple scenarios based on HPA, interest rates, unemployment as well as other factors
- These scenarios are fed through our proprietary cash flow engine to calculate loss coverage multiples and likely total return over the life of the security

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Proprietary Credit Analysis Systems

- For each bond, HBK's system generates a report, providing the stratification of the deal's collateral as well as highlighting potential problems
- Users can literally drill down to the loan level via a mouse click
- Reports are also available providing greater detail on specific collateral characteristics such as state or FICO

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Future Developments

- HBK is continuously looking to improve our existing models and methodology
- HBK maintains constant dialogue with other market leaders such as broker-dealers, originators, servicers, and the rating agencies to better improve our models
- HBK spent months developing and streamlining a new system to allow for faster analysis and additional stresses on collateral
- HBK continuously compares our predictions to market empirical evidence to verify and improve our models

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Tab D

Biographies of Structured Products CDO Team

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Biographies

Jamiel Akhtar

Mr. Akhtar has been associated with HBK since 1993 and is a Managing Director of HBK. Mr. Akhtar is primarily responsible for HBK's developed markets fixed income arbitrage portfolio, which includes investments in government and agency bonds, futures, interest rate derivatives, and mortgage and asset-backed securities. Mr. Akhtar is also responsible for HBK's Risk Management Group. He received an A.B. degree cum laude in Economics in 1993 from Harvard College

Kevin Jenks

Mr. Jenks has been associated with HBK since 2002 and is the firm's senior portfolio manager for the ABS, MBS and CMBS sectors. From 2000 to 2002, Mr. Jenks was a senior portfolio manager at Vanderbilt Capital Advisors, LLC specializing in the structured product fixed income market with a focus on structured credit securities. He was a senior member of a five person team responsible for managing over $6 billion in institutional fixed income portfolios for clients. From 1997 to 2000, Mr. Jenks was a portfolio manager with Prime Advisors, where he was responsible for the trading, investment strategy and management of a $3 billion plus fixed income portfolio consisting of total return funds and insurance company portfolios. In addition, he was also the firm's sector manager for structured product securities. Prior to 1997, Mr. Jenks held various trading, analyst and portfolio management positions at Bank Boston, The Boston Company Asset Management and Fidelity Investments. Mr. Jenks received a B.S. degree in Finance in 1992 from the University of Massachusetts

Jason Lowry

Mr. Lowry is an assistant trader/analyst with HBK. Jason oversees system analytics and structural analysis. Prior to joining HBK Mr. Lowry was a quantitative analyst with Freddie Mac in fixed income research. Mr. Lowry received a B.S. degree in Physics and Mathematics with University and Departmental Honors from Carnegie Mellon in 2001

Marco Lukesch

Mr. Lukesch is an analyst with HBK. Marco oversees surveillance and collateral analysis on new trades and existing positions. Prior to joining HBK Mr. Lukesch was a consultant with Oliver, Wyman & Co. a strategy consulting firm devoted to the financial services industry. Mr. Lukesch graduated magna cum laude from the University of Pennsylvania in 2001 receiving a B.S. from the Wharton School and a B.A. from the College and was elected Phi Beta Kappa

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Biographies (continued)

Kimberlee Rozman

Ms. Rozman has been associated with HBK since 1999 and is Associate General Counsel of HBK. Ms. Rozman is responsible for a range of HBK's legal and compliance matters. Prior to joining HBK Ms. Rozman was associated with Jackson & Walker L.L.P. Ms. Rozman received a J.D. degree summa cum laude from Dickinson Law School in 1990

Gayla Mathis

Mrs. Mathis has been associated with HBK since 1996 and is responsible for global trading operations. Mrs. Mathis graduated from Texas A&M University in 1996 with a B.S. in Accounting

Jim Wang

Mr. Wang is a senior quantitative analyst with HBK. His primary responsibilities include developing prepayment and default models to analyze mortgage pools. Prior to joining HBK, Mr. Wang was a quantitative analyst in ABS Research at Citigroup. Mr. Wang graduated from Brandeis University with Ph.D. in physics in 1996

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Section 4

Performance of HBK's Prior CDOs

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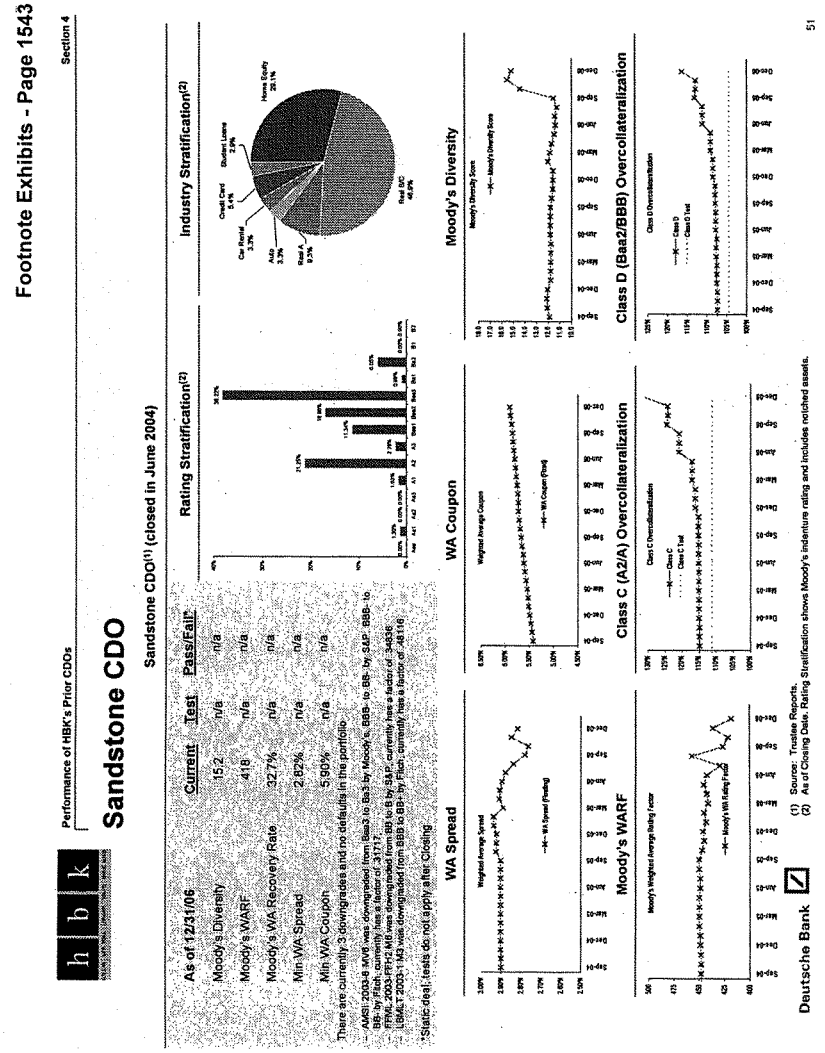

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Appendix I

Risk Factors

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Risk Factors

Appendix I

Risk Factors

Lack of Liquidity and Restrictions on Transfer	The Notes should be viewed as a long-term investment and not as an investment to be traded. There can be no assurance that there will be any secondary market for the Notes. Furthermore, any trading of the Notes will be subject to certain transfer restrictions.
Potential for Interruption and Deferral of Cash Flow	If certain Coverage Tests are not met (e.g. due to Collateral Debt Security defaults), then cash flow that otherwise would have been available to pay interest on the subordinate Notes and distributions to the Preference Shares would instead be used to redeem Class A Notes and, after the Class A Notes are paid in full, to redeem the Class B Notes and, after the Class B Notes are paid in full, to redeem the Class C Notes and, after the Class C Notes are paid in full, to redeem the Class D Notes until the tests again are satisfied. This could result in the early redemption of the Class A Notes, Class B Notes, Class C Notes and Class D Notes.
Limited Recourse Obligations	The issuer will have no assets other than the Collateral Debt Securities and the Interest Rate Swap Agreement and Investment Agreements. Payments on the Notes and distributions on the Preference Shares will be payable solely from the cash flow of the assets of the Issuer. None of the Placement Agent (Deutsche Bank Securities Inc.), the Collateral Manager or any of their respective affiliates will have any obligation to make payments of principal or interest or other distributions on any of the securities issued by the Issuer.
Subordination	The payment of interest on each class of Notes is subordinated to the payment in full of the interest due and payable on any more senior class of Notes and certain other amounts, and application of Interest Proceeds to make payments on the Preference Shares is subordinated to the payment in full of the interest due and payable on each class of Notes and certain other amounts. Subject to certain limited exceptions, the payment of principal of each class of Notes is subordinated to payment in full of interest on and principal of any more senior class of Notes and all other amounts payable to the Issuer, and the application of Principal Proceeds to make payments on the Preference Shares is subordinated to the payment in full of interest on and principal of each class of Notes payable to the Issuer and all other amounts.
Asset/Liability Mismatch Risk	The floating rate nature of the Notes financing of the issuer and the fixed rate nature of certain of the Collateral Debt Securities could produce a fixed/floating interest rate mismatch between the assets and the liabilities of the Issuer. Therefore, an increase in the level of LIBOR may adversely impact the returns on the Notes. The Issuer will enter into interest rate swaps which should reduce the asset/liability mismatch and therefore lower the return sensitivity of the Notes to changes in the absolute level of interest rates. Any mismatch would adversely affect returns on the Notes.

Please refer to the Offering Circular for a complete list of Risk Factors and detailed descriptions.

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Risk Factors (continued)

Risk of the Collateral Debt Securities

The Collateral Debt Securities are subject to substantial credit, liquidity and interest rate risk. The synthetic securities, the interest rate swap and the Investment Agreement are subject to counterparty risk.

Maturity and Prepayment Considerations

The Stated Maturity of the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class E Notes will be the Distribution Date in [ ]. However, due to, among other things, the Clean-Up Call Redemption and the performance of the Collateral Debt Securities, the average life of the Notes is expected to be significantly shorter than the Stated Maturity for such class of Notes.

Structured Finance Obligations and Synthetic Securities

The Collateral Debt Securities may consist of structured finance securities and synthetic securities for which the reference obligations are structured finance securities. The market for these securities is generally less liquid than for other types of securities, which may prevent the Collateral Manager from taking advantage of changes in market conditions for the resale of the structured finance securities and synthetic securities. The Issuer may also be subject to the credit risk of the counterparty on any synthetic securities, which will be in addition to the credit risk associated with the reference obligation and the synthetic security itself.

Tax and ERISA Considerations

Special tax and ERISA considerations may apply to certain types of investors. Prospective investors are urged to consult with their own tax and ERISA advisors to determine the tax and ERISA implications of this investment, and to review the tax-related and ERISA-related provisions in the final Offering Memorandum and the Indenture.

Conflicts of Interest

Various potential and actual conflicts of interest may arise from the overall investment activity of the Collateral Manager and its respective affiliates. Among other things, the Collateral Manager may invest for the accounts of others in securities that would be appropriate for the Issuer and in securities that are senior to or subordinate to securities of the same issuers as those owned by the Issuer. Also, since the Collateral Manager, its affiliates, or its clients may own all or part of a Class of the Notes or the Preference Shares, various actual and potential conflicts may exist as a result of the Collateral Manager taking action on its behalf, on behalf of its affiliates or its asset management clients and on behalf of the Holders of the Notes or the Preference Shares.

Please refer to the Offering Circular for a complete list of Risk Factors and detailed descriptions.

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From: Chehao Lu
Sent: Wednesday, July 11, 2007 10:45:56 AM
To: Marco Lukesch; Rachel Wish
Subject: G7 - mgmt fee

actually, mgmt fee is calculated based on 30/360

Section 1.1 Definitions.

"Management Fee" means the fee which will accrue from the Closing Date at a rate per annum of 0.30% on the Quarterly Asset Amount, payable to the Collateral Manager in arrears on each Distribution Date, as compensation for the performance of its obligations as Collateral Manager under the Management Agreement. Any Management Fee accrued prior to the resignation or removal of the Collateral Manager will continue to be payable to the Collateral Manager on the Distribution Date immediately following the effectiveness of such resignation or removal. This payment will be made to the extent of the funds available for such purpose in accordance with the Priority of Payments.

Section 1.2 Assumptions as to Underlying Assets, Etc.

(f) Any reference in the definition of "Management Fee" in Section 1.1 to an amount calculated with respect to a period at a per annum rate shall be computed on the basis of a 360 day year of twelve 30-day months.

Che Lu
Global CDO Group
Deutsche Bank Securities Inc.
212-250-7801

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1351

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From:	Eric Martel
Sent:	Tuesday, September 11, 2007 05:26:11 PM
To:	Jamiel Akhtar; Accounting - Mgmt Co
CC:	FixedIncome
Subject:	FW: Gemstone CDO VII Ltd - 09/12/2007 - Payment Date Reports - Draft #1
Attachments:	Gemstone VII Note Val 2007-09-12 v1.pdf; Gemstone VII Compliance 2007-09-05 v1.pdf; Gemstone VII Build_Asset 2007-09-05 v1.csv

Gemstone 7 distribution for Wednesday 9/12 = $711,420.60

Collateral Management Fee = $826,067.88

-----Original Message-----
From: Susan N Anderson [mailto:susan.n.anderson@db.com]
Sent: Tuesday, September 11, 2007 12:51 AM
To: shannon.obrian@ey.com; paul.penland@ey.com; Rachel Wish
Cc: Kevin Jenks; Jason Lowry; Marco Lukesch; Jeff Schmitt; Eric Martel; Ashley Bonilla; FixedIncome; Patrick Carvell
Subject: Gemstone CDO VII Ltd - 09/12/2007 - Payment Date Reports - Draft #1

Attached is the 1st draft of the Note Valuation Report and Compliance Report (and accompanying data file) in connection with next week's payment date scheduled for Wednesday, 09/12/2007 (Finally!). Please review and advise me of any changes, corrections or modifications you see may be needed.

Please forward updated WAL info asap, if changes are needed.

(See attached file: Gemstone VII Note Val 2007-09-12 v1.pdf)(See attached file: Gemstone VII Compliance 2007-09-05 v1.pdf)(See attached file: Gemstone VII Build_Asset 2007-09-05 v1.csv)

I can't apologize enough for the delay in getting these reports out to all of you for review and comment. There were several reasons (namely systems problems and outages, disaster recovery testing over the weekend, and model problems), but no excuse. Every effort will be made to ensure this type of delay does not recur on future payment date reporting. I really appreciate your patience and know you will promptly review these reports.

As reports are already past due to investors (technically due 2 business days prior to the Distribution Date), we need to have these reports finalized asap on Tuesday, especially the Waterfall, I/C and O/C tests.

Thank you . . .

Susan Anderson

CDO Business Unit
Trust & Securities Services
Deutsche Bank Trust Company Americas
1761 East St. Andrew Place
Santa Ana, CA 92705-4934
Voice: (714) 247-6411
Fax: (714) 656-2585
Email: susan.n.anderson@db.com

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WILMERHALE

Reginald J. Brown
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+1 202 663 6363 (f)
reginald.brown@wilmerhale.com

August 20, 2010

By Courier Delivery

Hon. Carl Levin, Chairman
Permanent Subcommittee on Investigations
Committee on Homeland Security and Governmental Affairs
United States Senate
SR-199 Russell Senate Office Building
Washington, DC 20510

Hon. Tom Coburn, Ranking Member
Permanent Subcommittee on Investigations
Committee on Homeland Security and Governmental Affairs
United States Senate
SR-199 Russell Senate Office Building
Washington, DC 20510

Dear Chairman Levin and Ranking Member Coburn:

Today HBK Capital Management ("HBK") is submitting to the Permanent Subcommittee on Investigations ("PSI") a set of documents responsive to the PSI's request dated August 2, 2010. These documents have been bates labeled GEM7-00000001 through GEM7-00001830. We hope that these documents, as well as the information we are providing in this letter after consultation with HBK, will assist the PSI in understanding the Gemstone VII CDO's structure and operations as well as HBK's role as collateral manager. If the PSI still has questions after reviewing the information below and the documents submitted today, we would be happy to arrange a teleconference with an HBK representative and counsel. We have also set aside September 10 to provide an in-person briefing for the staff, if necessary.

As you may know, HBK Capital Management manages a global, multi-strategy hedge fund business. At the time of the Gemstone VII offering in March 2007, HBK managed only two funds—HBK Fund L.P. and HBK Offshore Fund Ltd. These two funds have identical investment objectives and are operated in a "master-feeder" structure, under which they invest most of their assets in a single master fund—HBK Master Fund L.P. (the "Master Fund"). A substantial majority of HBK's investments are held directly in the Master Fund, although various other entities have been established from time to time for specific investments.

HBK organizes its portfolio into "business units." In early 2007, HBK had 21 business units across a range of strategies, including credit, equities, volatility, sovereign debt and private placements. The "Structured Credit" business unit invested in mortgages and mortgage-related

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1352
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securities and derivatives, including asset backed securities (ABS), CDOs, and related index products. Approximately 10% of the capital managed by HBK was deployed in the Structured Credit business unit at its peak in 2007.

One of the investment strategies pursued by HBK's Structured Credit business unit was to invest in mortgage-related securities through CDOs such as the Gemstone VII CDO. This CDO was structured in a typical fashion, as follows:

- On October 24, 2006, HBK and Deutsche Bank entered into a "warehouse" arrangement, evidenced by a Risk Sharing Agreement and other documents, under which the CDO entity was formed and began to acquire the pool of ABS (and derivatives on ABS) that would eventually serve as the collateral for the various tranches of notes to be issued by the CDO. The collateral purchased under this warehouse arrangement was selected by HBK and subject to Deutsche Bank's right of approval. The warehouse documents originally contemplated a total collateral pool of $750 million, which was increased to $1.1 billion in late December 2006.

- At the closing, the warehouse financing was replaced with financing through the issuance, by the CDO, of seven tranches of notes with an aggregate face value of $1.04 billion, along with the residual equity interest in the CDO that was sold to HBK (the "Residual Interest").

- Pursuant to the Risk Sharing Agreement, if the closing had not occurred, the warehouse would have been liquidated. Under this agreement, HBK would have been responsible for any losses up to a maximum of $82.5 million (increased from $56.25 million when the size of the warehouse was increased), and Deutsche Bank would have borne any losses exceeding HBK's maximum.

- Deutsche Bank Securities Inc. was the "Initial Purchaser" in the transaction. In this capacity, it purchased all of the notes issued by the CDO at the closing and then re-sold most of the notes to sophisticated investors (including HBK) in a private placement.

- HBK served as "collateral manager" of the CDO pursuant to a Collateral Management Agreement between HBK and the CDO.

- Payments received by the CDO from the collateral were used by the CDO to make interest and principal payments on the various tranches of notes issued by the CDO, in accordance with an agreed "waterfall." The Residual Interest owned by HBK was at the very bottom of the waterfall.

HBK participated in the Gemstone VII CDO with the objective of obtaining long exposure to the CDO's collateral, on a leveraged basis, through ownership of the Residual Interest. HBK also invested an additional $300+ million in the CDO by purchasing CDO notes at the closing. HBK never had a short position in any securities issued by the Gemstone VII CDO. Information showing HBK's positions in the Gemstone VII securities over time is attached as Exhibit A (GEM7-00000001 through GEM7-00000002).

In addition to purchasing notes and the Residual Interest issued by the CDO, HBK took additional long exposure to the CDO's collateral outside of the CDO by buying (or selling protection on) the same underlying assets and on other bonds issued by the same ABS issuers. Information showing HBK's positions in the underlying collateral over time is attached as Exhibit B (GEM7-00000003 through GEM7-00000007).

As a result of the investments reflected in Exhibits B and C, following the Gemstone VII closing HBK had approximately $350 million of long exposure to the CDO itself through securities issued by the CDO and over $800 million of additional long exposure to the same underlying collateral outside of the CDO. Consequently, HBK had every incentive to select attractive collateral for the CDO and to manage the CDO so as to maximize the value of that collateral. Information showing HBK's aggregate exposure to the Gemstone VII securities and the underlying collateral over time is attached as Exhibit C (GEM7-00000008).

Primarily as a result of the unanticipated and unprecedented decline in housing prices later in 2007, HBK lost over $700 million in its Structured Credit business unit during 2007. Outside of the Structured Credit business unit, HBK had no short positions in mortgage-related securities (including mortgages, ABS, CDOs, indexes and similar instruments). Information showing HBK's profits and losses in its Structured Credit business unit, by month, is attached as Exhibit D (GEM7-00000009 through GEM7-00000010).

In addition to the documents described above, today's production includes the following:

- Two organizational charts reflecting HBK's management company and fund entities in March 2007 (the closing of the Gemstone VII CDO) (GEM7-00000011 through GEM7-00000013). The chart of fund entities includes all entities that held positions in the firm's

Structured Credit business unit at that time. Also attached is a list of all of the other HBK entities existing in early 2007, all of which were direct or indirect subsidiaries of either HBK Fund L.P. or HBK Master Fund L.P. (and none of which held any positions in the Structured Credit business unit).

- A summary organizational chart showing HBK's management reporting structure as of January 5, 2007, followed by a more detailed chart for the Credit group, which included the Structured Credit business unit (GEM7-00000014 through GEM7-00000015). Substantially all of HBK's U.S. employees, and all employees in the Structured Credit business unit, were employed by HBK Investments L.P., which was HBK's primary investment management company with offices in Dallas and New York. (A small number of U.S. employees were employed by HBK Global Securities L.P., an indirect wholly-owned subsidiary of HBK Master Fund L.P., and non-U.S. employees were employed by the subsidiaries of HBK Investments L.P. identified on the chart of management company entities.)

- Deal documents governing the warehouse arrangement between HBK and Deutsche Bank related to the Gemstone VII CDO (GEM7-00000016 through GEM7-00000176).

- A complete set of closing documents for the Gemstone VII CDO (GEM7-00000177 through GEM7-00001747).

- Documents related to two repurchase agreement transactions between HBK and Deutsche Bank related to the Gemstone VII CDO (GEM7-00001748 through GEM7-00001830).

Both of these repo transactions were executed pursuant to a standard Master Repurchase Agreement between HBK Master Fund L.P. and Deutsche Bank Securities Inc. (GEM7-00001748 through GEM7-00001772). Pursuant to this agreement, Deutsche Bank provides financing for securities in HBK's portfolio by buying such securities against HBK's obligation to repurchase them. The effect of such a repurchase agreement is identical to a secured loan (i.e., a loan from Deutsche Bank to HBK secured by a pledge of the securities), and repurchase agreements are treated as secured loans for purposes of GAAP. Each transaction has a stated term, generally one week or one month, after which the transaction is closed and may (if the parties agree) be re-opened (or "rolled") to start a new secured loan. If the market value of the pledged securities falls, then the loan is essentially repaid by the same amount (through HBK's repurchase obligation), so that the securities continue to provide sufficient collateral for the outstanding loan balance.

All of the financing provided under HBK's Master Repurchase Agreement with Deutsche Bank, including the two transactions related to Gemstone VII, was provided on a full recourse basis, with HBK bearing all risk of loss associated with the securities being financed.

The two repo transactions related to Gemstone VII were as follows:

- The first transaction was initiated on March 26, 2007, to finance the $200 million (face) of A1B2 bonds that HBK purchased at the closing of the Gemstone VII CDO. (To facilitate this transaction, these bonds were first sold internally from HBK CDO Trust, which originally purchased them, to HBK Master Fund L.P., which had the necessary Master Repurchase Agreement with Deutsche Bank.) This repo transaction was closed and re-opened ("rolled") periodically until October 25, 2007, when it was closed permanently. Through this standard process, HBK repaid (with interest) all of the money borrowed from Deutsche Bank in this transaction.

- The second transaction was initiated on August 30, 2007, to finance the $50 million (face) of A1B1 bonds that HBK purchased on August 24, 2007. This transaction was rolled periodically until March 25, 2008, when it was closed permanently. Through this standard process, HBK repaid (with interest) all of the money borrowed from Deutsche Bank in this transaction.

Attached (GEM7-00001773 through GEM7-00001830) are the following documents related to these two transactions: (i) statements from HBK's accounting system reflecting the initial purchase of each of these securities, (ii) email "trade tickets" exchanged between HBK and Deutsche Bank to open, roll and close the repo transactions, and (iii) statements from HBK's accounting system reflecting each repo transaction.

HBK may amend or supplement this production as appropriate based on continuing discussions with your staff and our further review of these issues.

* * * * *

HBK respectfully requests that its produced documents be maintained confidentially under Rule 16 of the PSI's Rules of Procedure and not be released publicly without a majority vote of the PSI. HBK further asks that the PSI staff provide the undersigned with notice and an opportunity to be heard in the event the PSI determines that it will disclose any information from

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this production or letter to a third party. Such treatment would be consistent with the respect for privileged and confidential information that the Subcommittee has shown in the past.

Please feel free to contact us at (202) 663-6430 should you have any questions.

Sincerely,

Reginald J. Brown

Laura Moranchek Hussain

Enclosures

cc: Jon Mosle
Henry Klehm III

Footnote Exhibits - Page 1561

Assets Purchased by Genstone VII CDO during Warehouse Period

Deal Name	Asset Name	Trade Date	Settle Date	Cost Price	Principal Amount	Trade Cash Flow	Settle Cash Flow	Counterparty
1173TBA44	BAYVIEW COMMERCIAL ASSET TRUST BAYC 2004-1A B1	10/24/05	10/24/05	100.000000	1,700,000	100.000000	(1,700,000.00)	ML
4M037FAD3	JPMAC2006_CH1_M10	10/26/06	11/14/06	99.899999	9,899,999	99.353400	(9,818,441.33)	JPM
4M037FAD3	JPMAC2006_CH1_M10	10/26/06	11/14/06	99.899999	100,000	99.353400	(99,184.85)	Cash
4M037FAD3	JPMAC2006_CH1_M10	10/26/06	11/14/06	99.899999	1,300,000	100.000000	(1,300,000.00)	Cash
4M037FAD3	JPMAC2006_CH1_M10	10/26/06	11/14/06	99.899999	1,000,000	100.000000	(1,000,000.00)	JPM
33572PAU7	FFML 2006_FF13_B1	11/2/06	11/15/06	99.899999	1,000,000	99.768750	(998,468.75)	Cash
33572PAU7	FFML 2006_FF13_B1	11/2/06	11/15/06	99.899999	11,000,000	99.768750	(10,929,840.25)	Cash
33572PAU7	FFML 2006_FF13_B1	11/2/06	11/15/06	99.899999	1,000,000	99.768750	(998,468.75

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542514JE5	LBMLT2004_4_M12	LBMLT2004-4 M12	1/26/07	01/31/07	8,500,000	93.9801582500	(8,095,559.81)	OB-WH	Cash
004421VD2	ACE2006_NC1_M10	ACE SECURITIES CORP. 2006-NC1 M10	02/07/07	02/12/07	1,500,000	89.8673000000	(1,351,552.50)	GS	Cash
3622WQAT5	GSAMP2007_NC1_B1	GSAMP2007_NC1_B1	02/07/07	02/20/07	12,500,000	80.0000000000	(10,000,000.00)	GS	Cash
437084QJ8	HEAT2005_5_B2	HEAT 2005-5 B2	02/07/07	02/12/07	1,000,000	87.3750000000	(877,810.00)	GS	Cash
20173QAN1	GCCFC2007_GG9_F	GREENWICH CAPITAL COMMERCIAL FUNDING COR 2007-GG9 F	02/21/07	03/08/07	3,500,000	100.4970000000	(3,521,228.57)	Greenwich	Cash
298258AG7	EULER2007_1A_B	EULER 2007-1A B	02/22/07	03/27/07	15,000,000	100.0000000000	(15,000,000.00)	ML	Cash
46629YAM1	JPMCC2007_CB18_D	JP MORGAN CHASE COMMERCIAL MORTGAGE SEC 2007-CB18 D	02/23/07	03/07/07	3,000,000	100.4924700000	(3,017,835.81)	JPM	Cash

RATE HEDGES

CUSIP	Instrument	Underlying Description	Trade Date	Effective Date	Notional	Rate Paid/Rec		Broker	Counterparty
3137EAAC3	FHLMC5.125%04/08	FEDERAL HOME LN MTG CORP 5.125% 04/18/2008	11/7/06	11/09/06	(15,700,000)	100.0260000000	15,751,332.48	TMTS2006_SSL_A2	-
3137EAAE9	FHLMC5.25%05/09	FEDERAL HOME LN MTG CORP 5.25% 05/21/2009	11/7/06	11/09/06	(11,800,000)	100.6280000000	12,156,320.67	TMTS2006_SSL_A2	-
3137EAAJ8	FHLMC5.125%10/16	FREDDIE MAC 5.125% 10/18/2016	11/20/06	11/21/06	(11,350,000)	101.5130000000	11,583,125.85	BACM2006_5_D / BACM2006_5_E	
3137EAAF8	FHLMC5.25%07/11	FEDERAL HOME LN MTG CORP 5.25% 07/18/2011	12/01/06	12/04/06	(11,700,000)	102.5290000000	12,227,943.06	RAMC2006_4_M4 / RAMC2006_4_M7	
3137EAAJ8	FHLMC5.125%10/16	FREDDIE MAC 5.125% 10/18/2016	12/15/06	12/18/06	(11,600,000)	101.8450000000	11,902,800.26	JPMCC2006_LDP8_D / JPMCC2006_LDP8_E	
3137EAAJ8	FHLMC5.125%10/16	FREDDIE MAC 5.125% 10/18/2016	02/21/07	02/22/07	(3,300,000)	100.7890000000	3,591,156.04	DCCFC2007_GG9_F	
3137EAAJ8	FHLMC5.125%10/16	FREDDIE MAC 5.125% 10/18/2016	02/23/07	02/28/07	(3,000,000)	100.8807800000	3,663,225.48	JPMCC2007_CIBC18_D	

CDS

Underlying CUSIP	Instrument	Underlying Description	Trade Date	Effective Date	Notional	Rate Paid/Rec		Broker	Counterparty
1298T0XD5	CWL2006_4_B	COUNTRYWIDE ASSET-BACKED CERTI CWL 2006-4 B	10/24/06	10/27/06	15,000,000	2.23000		UBS	CDS
1298T0XD5	CWL2006_4_B	COUNTRYWIDE ASSET-BACKED CERTI CWL 2006-4 B	10/24/06	10/27/06	5,000,000	2.23000		BARCLAYS	CDS
46626LGQ7	JPMAC2006_NE1_M9	JPMAC 2006-NE1 M9	10/24/06	10/27/06	15,000,000	1.97000		GS	CDS
542514PE6	LBMLT2005_3_M8	LBMLT 2005-3 M8	10/24/06	10/27/06	15,000,000	3.00000		DB	CDS
542511PAP2	LBMLT2006_3_M9	LBMLT 2006-3 M9	10/24/06	10/27/06	10,000,000	2.52000		JPM	CDS
542511PAP2	LBMLT2006_5_M9	LBMLT 2006-5 M9	10/24/06	10/27/06	10,000,000	2.55000		BARCLAYS	CDS
59020UVB8	MLMI2005_HE1_B3	MERRILL LYNCH MORTGAGE INVESTO 2005-HE1 B3	10/24/06	10/27/06	15,000,000	2.22000		UBS	CDS
61744CYK8	MSAC2006_NC1_B3	MSAC 2006-NC1 B3	10/24/06	10/27/06	5,000,000	2.09000		ML	CDS
61744CYK8	MSAC2006_NC1_B3	MSAC 2006-NC1 B3	10/24/06	10/27/06	5,000,000	1.97000		BARCLAYS	CDS
81375WJP2	SABR2006_OP1_B3	SECURITIZED ASSET BACKED RECEIVABLES LLC TRUST 2006-OP1 B3	10/24/06	10/27/06	5,000,000	1.97500		GS	CDS
81375WJP2	SABR2006_OP1_B3	SECURITIZED ASSET BACKED RECEIVABLES LLC TRUST 2006-OP1 B3	10/24/06	10/27/06	10,000,000	1.99000		BARCLAYS	CDS
040104AM9	ARSI2005_W2_M9	Argent Securities Inc. 2005-W2 M9	10/31/06	11/03/06	15,000,000	2.75000		GS	CDS
3572MPKZ2	FHLT2005_C_M9	Fremont 2005-C M9	10/31/06	11/07/06	5,000,000	2.45000		GS	CDS
542514RU9	LBMLT2006_1_M7	LBMLT 2006-1 M7	11/02/06	11/07/06	10,000,000	0.87000		CITI	CDS
542514RU9	LBMLT2006_1_M7	LBMLT 2006-1 M7	11/02/06	11/07/06	10,000,000	0.84000		DB	CDS
66988WAN6	NHEL2006_3_M8	NHEL 2006-3 M8	11/03/06	11/08/06	5,000,000	2.24000		MS	CDS
46626LFW5	JPMAC2006_FRE1_M9	JP MORGAN MORTGAGE ACQUISITION CORP 2006-FRE1 M9	11/10/06	11/15/06	10,000,000	2.22000		MS	CDS
46626LFW5	JPMAC2006_FRE1_M9	JP MORGAN MORTGAGE ACQUISITION CORP 2006-FRE1 M9	11/10/06	11/15/06	5,000,000	2.25000		DB	CDS
362483AP6	GSAMP2006_NC2_M9	GSAMP2006_NC2_M9	11/13/06	11/15/06	10,000,000	2.77000		JPM	CDS
43709NAG8	HEAT2006_7_B1	HEAT 2006-7 B1	11/13/06	11/16/06	10,000,000	3.00000		DB	CDS
437098AR1	HEAT2006_5_B1	HEAT 2006-5 B1	11/15/06	11/20/06	15,000,000	2.87000		CITI	CDS
57643LMQ5	MABS2006_NC1_M9	Master Asset Backed Securities Trust 2006-NC1 M9	11/28/06	12/01/06	15,000,000	3.00000		DB	CDS
43709NAG8	HEAT2006_7_B1	HEAT 2006-7 B1	11/29/06	12/04/06	5,000,000	3.36000		DB	CDS
590210AP5	MLMI2006_AHL1_B3	MLMI 2006-AHL1 B3	12/06/06	12/11/06	20,000,000	3.25000		DB	CDS
81749NAP2	MSAC2006_HE5_B3	MSAC2006_HE5_B3	12/06/06	12/11/06	20,000,000	3.25000		DB	CDS
81375WFN1	SABR2005_FR4_B3	Securitized Asset Backed Receivables 2005-FR4 B3	12/06/06	12/11/06	20,000,000	3.25000		DB	CDS
362483AP6	GSAMP2006_NC2_M9	GSAMP2006_NC2_M9	12/08/06	12/13/06	10,000,000	3.75000		DB	CDS
78113ABU4	RASC2006_KS3_M9	RESIDENTIAL ASSET SECURITIES CORPORATION 2006-KS3 M9	12/08/06	12/13/06	20,000,000	3.82000		BARCLAYS	CDS
78113ABU4	RASC2006_KS3_M9	RESIDENTIAL ASSET SECURITIES CORPORATION 2006-KS3 M9	12/08/06	12/13/06	10,000,000	3.85000		DB	CDS
81375WJP2	SABR2006_OP1_B3	SECURITIZED ASSET BACKED RECEIVABLES LLC TRUST 2006-OP1 B3	12/12/06	12/15/06	15,000,000	2.25000		DB	CDS
542514GD0	LBMLT2004_2_M7	Long Beach Mortgage Loan Trust (HEL) 2004-2 M7	12/14/06	12/19/06	10,000,000	1.97500		LEHMAN	CDS
065558AG8	BNLI2006_1A_B	BNLI 2006-1A B	12/18/06	12/21/06	15,000,000	0.46000		CITI	CDS
930313AD3	WADS2006_1A_B	WADS 2006-1A B	12/18/06	12/21/06	15,000,000	0.43000		CITI	CDS
004421VC4	ACE2006_NC1_M9	ACE SECURITIES CORP. 2006-NC1 M9	12/18/06	12/22/06	10,000,000	2.39000		CITI	CDS
172983AP3	CMLTI2006_NC1_M9	CMLTI 2006-NC1 M9	12/19/06	12/22/06	15,000,000	3.72000		CITI	CDS
172983AP3	CMLTI2006_NC1_M9	CMLTI 2006-NC1 M9	12/19/06	12/22/06	10,000,000	3.72000		JPM	CDS
46626LJZ4	JPMAC2006_NC1_M9	JPMAC 2006-NC1 M9	12/19/06	12/22/06	15,000,000	3.47000		JPM	CDS
617451FE4	MSAC2006_HE2_B3	MSAC 2006-HE2 B3	12/19/06	12/22/06	10,000,000	3.78000		BOA	CDS
617451FE4	MSAC2006_HE2_B3	MSAC 2006-HE2 B3	12/19/06	12/22/06	15,000,000	3.79000		GS	CDS
66389PKZ8	OOML T2006_1_M9	OOML T2006_1_M9	12/19/06	12/22/06	10,000,000	3.55000		DB	CDS
66389PKZ8	OOML T2006_1_M9	OOML T2006_1_M9	12/19/06	12/23/06	10,000,000	3.55000		DB	CDS
647519LF4	SURF2006_AB1_B3	SURF2006_AB1_B3	12/19/06	12/22/06	15,000,000	2.61000		GS	CDS
362483AP6	GSAMP2006_FM2_M9	GSAMP2006_FM2_M9	12/21/06	12/28/06	10,000,000	4.02000		GS	CDS
362483AP6	GSAMP2006_NC2_M9b	GSAMP 2006-NC2 M9	12/21/06	12/26/06	10,000,000	3.87000		GS	CDS
542511PAP2	LBMLT2006_5_M9	LBMLT 2006-5 M9	12/21/06	12/26/06	5,000,000	3.42000		GS	CDS
57643LMQ5	MABS2006_NC1_M9	Master Asset Backed Securities Trust 2006-NC1 M9	12/21/06	12/26/06	10,000,000	4.27000		GS	CDS
9497EUAR8	WFHET2006_1_M9	WFHET2006_1_M9	12/21/06	12/28/06	25,000,000	2.32000		GS	CDS
32027NYY1	FFML2006_FF1_M8	FFML 2006-FF1 M8	1/4/2007	1/8/2007	10,000,000	0.80000		DB	CDS

46430HCH7	HASC2006_OPT2_M8	HSI ASSET SECURITIZATION CORPO HASC 2006-OPT2 M8	1/4/2007	1/8/2007	5,000,000	0.92000	Barclays	CDS
81744CYJ6	MSAC2006_NC1_B2	MSAC 2006-NC1 B2	1/4/2007	1/8/2007	10,000,000	1.12000	UBS	CDS
86358FKY9	OOMLT2006_1_M8	OOMLT 2006-1 M8	1/4/2007	1/8/2007	10,000,000	2.07000	ML	CDS
64751PLE7	SURF2006_AB1_B2	SURF 2006-AB1 B2	1/4/2007	1/8/2007	10,000,000	1.88000	ML	CDS
437096AR1	HEAT2006_5_B1	HEAT 2006-5 B1	1/17/2007	1/22/2007	10,000,000	3.72000	GS	CDS
57643LMY9	MABS2005_NC2_M9	MASTR ASSET BACKED SECURITIES TRUST 2005-NC2 M9	1/17/2007	1/22/2007	10,000,000	2.67000	GS	CDS

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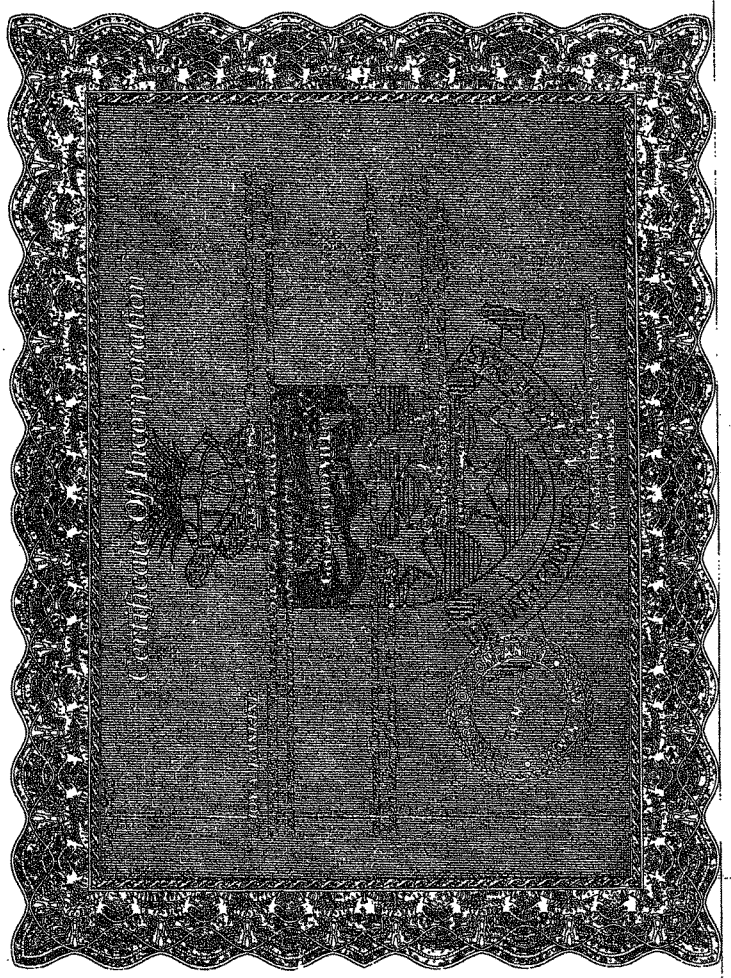

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1357

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THE COMPANIES LAW (2004 REVISION)
OF THE CAYMAN ISLANDS
COMPANY LIMITED BY SHARES

MEMORANDUM AND ARTICLES

OF

ASSOCIATION

OF

Gemstone CDO VII Ltd.

CONFIDENTIAL - PRODUCED TO M&T PURSUANT TO PROTECTIVE ORDER

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Footnote Exhibits - Page 4566

REGISTERED AND FILED
AS NO. [illegible] THIS 20th DAY
OF [illegible] 2006
ASST REGISTRAR OF COMPANIES
CAYMAN ISLANDS

THE COMPANIES LAW (2004 REVISION)

OF THE CAYMAN ISLANDS

COMPANY LIMITED BY SHARES

MEMORANDUM OF ASSOCIATION

OF

Gemstone CDO VII Ltd.

1 The name of the Company is **Gemstone CDO VII Ltd.**

2 The registered office of the Company shall be at the offices of Deutsche Bank (Cayman) Limited, P.O. Box 1984GT, Elizabethan Square, George Town, Grand Cayman, Cayman Islands or at such other place as the Directors may from time to time decide.

3 The objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Law (2004 Revision) or as the same may be revised from time to time, or any other law of the Cayman Islands.

4 The liability of each Member is limited to the amount from time to time unpaid on such Member's shares.

5 The share capital of the Company is US$50,000.00 divided into 50,000 shares of a par value of US$1.00 each.

6 The Company has power to register by way of continuation as a body corporate limited by shares under the laws of any jurisdiction outside the Cayman Islands and to be deregistered in the Cayman Islands.

7 Capitalised terms that are not defined in this Memorandum of Association bear the same meaning as those given in the Articles of Association of the Company.

REGISTRAR OF COMPANIES
EXEMPTED
CAYMAN ISLANDS

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WE, the subscriber to this Memorandum of Association, wish to be formed into a company pursuant to this Memorandum of Association, and we agree to take the number of shares shown opposite our name.

DATED this 20th day of October, 2006.

SIGNATURE and ADDRESS OF SUBSCRIBER	NUMBER OF SHARES TAKEN
M&C Corporate Services Limited of PO Box 309GT, Ugland House South Church Street, George Town, Grand Cayman, Cayman Islands acting by:	One

Anna Propper

John Dykstra

Allison Smith

Witness to the above signatures

I, Joy A. Rankine, Asst. Registrar of Companies in and for the Cayman Islands DO HEREBY CERTIFY that this is a true and correct copy of the Memorandum of Association of this Company duly incorporated on 20th day of October, 2006.

Asst. REGISTRAR OF COMPANIES

REGISTRAR OF COMPANIES EXEMPTED CAYMAN ISLANDS

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CAYMAN ISLANDS BRAND CAYMAN 20.10.06
CAYMAN ISLANDS GOVERNMENT STAMP DUTY PB01003 $002.00

REGISTERED AND FILED AS NO: [illegible] THIS 25 DAY OF October
ASST REGISTRAR OF COMPANIES CAYMAN ISLANDS

THE COMPANIES LAW (2004 REVISION)
OF THE CAYMAN ISLANDS
COMPANY LIMITED BY SHARES

ARTICLES OF ASSOCIATION
OF
Gemstone CDO VII Ltd.

INTERPRETATION

1 In these Articles Table A in the First Schedule to the Statute does not apply and, unless there is something in the subject or context inconsistent therewith:

"Articles"	means these articles of association of the Company.
"Auditor"	means the person for the time being performing the duties of auditor of the Company (if any).
"Company"	means the above named company.
"Directors"	means the directors for the time being of the Company.
"Dividend"	includes an interim dividend.
"Electronic Record"	has the same meaning as in the Electronic Transactions Law (2003 Revision).
"Member"	has the same meaning as in the Statute.
"Memorandum"	means the memorandum of association of the Company.
"Ordinary Resolution"	means a resolution passed by a simple majority of the Members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting, and includes a unanimous written resolution. In computing the majority when a poll is demanded regard shall be had to the number of votes to which each Member is entitled by the Articles.
"Register of Members"	means the register maintained in accordance with the Statute and includes (except where otherwise stated) any duplicate Register of Members.
"Registered Office"	means the registered office for the time being of the Company.
"Seal"	means the common seal of the Company and includes every duplicate seal.

REGISTRAR OF COMPANIES EXEMPTED CAYMAN ISLANDS

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"Share" and "Shares"	means a share or shares in the Company and includes a fraction of a share.
"Special Resolution"	has the same meaning as in the Statute, and includes a unanimous written resolution.
"Statute"	means the Companies Law (2004 Revision) of the Cayman Islands.

2 In the Articles:

2.1 words importing the singular number include the plural number and vice-versa;

2.2 words importing the masculine gender include the feminine gender;

2.3 words importing persons include corporations;

2.4 "written" and "in writing" include all modes of representing or reproducing words in visible form, including in the form of an Electronic Record;

2.5 references to provisions of any law or regulation shall be construed as references to those provisions as amended, modified, re-enacted or replaced from time to time;

2.6 any phrase introduced by the terms "including", "include", "in particular" or any similar expression shall be construed as illustrative and shall not limit the sense of the words preceding those terms;

2.7 headings are inserted for reference only and shall be ignored in construing these Articles; and

2.8 in these Articles Section 8 of the Electronic Transactions Law (2003 Revision) shall not apply.

COMMENCEMENT OF BUSINESS

3 The business of the Company may be commenced as soon after incorporation as the Directors shall see fit.

4 The Directors may pay, out of the capital or any other monies of the Company, all expenses incurred in or about the formation and establishment of the Company, including the expenses of registration.

ISSUE OF SHARES

5 Subject to the provisions, if any, in the Memorandum (and to any direction that may be given by the Company in general meeting) and without prejudice to any rights attached to any existing Shares, the Directors may allot, issue, grant options over or otherwise dispose of Shares (including fractions of a Share) with or without preferred, deferred or other rights or restrictions, whether in regard to Dividend, voting, return of capital or otherwise and to such persons, at such times and on such other terms as they think proper.

6 The Company shall not issue Shares to bearer.

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REGISTER OF MEMBERS

7 The Company shall maintain or cause to be maintained the Register of Members in accordance with the Statute.

CLOSING REGISTER OF MEMBERS OR FIXING RECORD DATE

8 For the purpose of determining Members entitled to notice of, or to vote at any meeting of Members or any adjournment thereof, or Members entitled to receive payment of any Dividend, or in order to make a determination of Members for any other proper purpose, the Directors may provide that the Register of Members shall be closed for transfers for a stated period which shall not in any case exceed forty days. If the Register of Members shall be closed for the purpose of determining Members entitled to notice of, or to vote at, a meeting of Members the Register of Members shall be closed for at least ten days immediately preceding the meeting.

9 In lieu of, or apart from, closing the Register of Members, the Directors may fix in advance or arrears a date as the record date for any such determination of Members entitled to notice of, or to vote at any meeting of the Members or any adjournment thereof, or for the purpose of determining the Members entitled to receive payment of any Dividend or in order to make a determination of Members for any other proper purpose.

10 If the Register of Members is not so closed and no record date is fixed for the determination of Members entitled to notice of, or to vote at, a meeting of Members or Members entitled to receive payment of a Dividend, the date on which notice of the meeting is sent or the date on which the resolution of the Directors declaring such Dividend is adopted, as the case may be, shall be the record date for such determination of Members. When a determination of Members entitled to vote at any meeting of Members has been made as provided in this Article, such determination shall apply to any adjournment thereof.

CERTIFICATES FOR SHARES

11 A Member shall only be entitled to a share certificate if the Directors resolve that share certificates shall be issued. Share certificates representing Shares, if any, shall be in such form as the Directors may determine. Share certificates shall be signed by one or more Directors or other person authorised by the Directors. The Directors may authorise certificates to be issued with the authorised signature(s) affixed by mechanical process. All certificates for Shares shall be consecutively numbered or otherwise identified and shall specify the Shares to which they relate. All certificates surrendered to the Company for transfer shall be cancelled and subject to these Articles no new certificate shall be issued until the former certificate representing a like number of relevant Shares shall have been surrendered and cancelled.

12 The Company shall not be bound to issue more than one certificate for Shares held jointly by more than one person and delivery of a certificate to one joint holder shall be a sufficient delivery to all of them.

13 If a share certificate is defaced, worn out, lost or destroyed, it may be renewed on such terms (if any) as to evidence and indemnity and on the payment of such expenses reasonably incurred by the Company in investigating evidence, as the Directors may

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prescribe, and (in the case of defacement or wearing out) upon delivery of the old certificate.

TRANSFER OF SHARES

14 Shares are transferable subject to the consent of the Directors who may, in their absolute discretion, decline to register any transfer of Shares without giving any reason. If the Directors refuse to register a transfer they shall notify the transferee within two months of such refusal.

15 The instrument of transfer of any Share shall be in writing and shall be executed by or on behalf of the transferor (and if the Directors so require, signed by the transferee). The transferor shall be deemed to remain the holder of a Share until the name of the transferee is entered in the Register of Members.

REDEMPTION AND REPURCHASE OF SHARES

16 Subject to the provisions of the Statute the Company may issue Shares that are to be redeemed or are liable to be redeemed at the option of the Member or the Company. The redemption of such Shares shall be effected in such manner as the Company may, by Special Resolution, determine before the issue of the Shares.

17 Subject to the provisions of the Statute, the Company may purchase its own Shares (including any redeemable Shares) provided that the Members shall have approved the manner of purchase by Ordinary Resolution.

18 The Company may make a payment in respect of the redemption or purchase of its own Shares in any manner permitted by the Statute, including out of capital.

VARIATION OF RIGHTS OF SHARES

19 If at any time the share capital of the Company is divided into different classes of Shares, the rights attached to any class (unless otherwise provided by the terms of issue of the Shares of that class) may, whether or not the Company is being wound-up, be varied with the consent in writing of the holders of three-quarters of the issued Shares of that class, or with the sanction of a Special Resolution passed at a general meeting of the holders of the Shares of that class.

20 The provisions of these Articles relating to general meetings shall apply to every class meeting of the holders of one class of Shares except that the necessary quorum shall be one person holding or representing by proxy at least one-third of the issued Shares of the class and that any holder of Shares of the class present in person or by proxy may demand a poll.

21 The rights conferred upon the holders of the Shares of any class issued with preferred or other rights shall not, unless otherwise expressly provided by the terms of issue of the Shares of that class, be deemed to be varied by the creation or issue of further Shares ranking pari passu therewith.

COMMISSION ON SALE OF SHARES

22 The Company may, in so far as the Statute permits, pay a commission to any person in consideration of his subscribing or agreeing to subscribe whether absolutely or conditionally for any Shares of the Company. Such commissions may be satisfied by the

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payment of cash and/or the issue of fully or partly paid-up Shares. The Company may also on any issue of Shares pay such brokerage as may be lawful.

NON-RECOGNITION OF TRUSTS

23 The Company shall not be bound by or compelled to recognise in any way (even when notified) any equitable, contingent, future or partial interest in any Share, or (except only as is otherwise provided by these Articles or the Statute) any other rights in respect of any Share other than an absolute right to the entirety thereof in the registered holder.

LIEN ON SHARES

24 The Company shall have a first and paramount lien on all Shares (whether fully paid-up or not) registered in the name of a Member (whether solely or jointly with others) for all debts, liabilities or engagements to or with the Company (whether presently payable or not) by such Member or his estate, either alone or jointly with any other person, whether a Member or not, but the Directors may at any time declare any Share to be wholly or in part exempt from the provisions of this Article. The registration of a transfer of any such Share shall operate as a waiver of the Company's lien thereon. The Company's lien on a Share shall also extend to any amount payable in respect of that Share.

25 The Company may sell, in such manner as the Directors think fit, any Shares on which the Company has a lien, if a sum in respect of which the lien exists is presently payable, and is not paid within fourteen clear days after notice has been given to the holder of the Shares, or to the person entitled to it in consequence of the death or bankruptcy of the holder, demanding payment and stating that if the notice is not complied with the Shares may be sold.

26 To give effect to any such sale the Directors may authorise any person to execute an instrument of transfer of the Shares sold to, or in accordance with the directions of, the purchaser. The purchaser or his nominee shall be registered as the holder of the Shares comprised in any such transfer, and he shall not be bound to see to the application of the purchase money, nor shall his title to the Shares be affected by any irregularity or invalidity in the sale or the exercise of the Company's power of sale under these Articles.

27 The net proceeds of such sale after payment of costs, shall be applied in payment of such part of the amount in respect of which the lien exists as is presently payable and any residue shall (subject to a like lien for sums not presently payable as existed upon the Shares before the sale) be paid to the person entitled to the Shares at the date of the sale.

CALL ON SHARES

28 Subject to the terms of the allotment the Directors may from time to time make calls upon the Members in respect of any monies unpaid on their Shares (whether in respect of par value or premium), and each Member shall (subject to receiving at least fourteen days notice specifying the time or times of payment) pay to the Company at the time or times so specified the amount called on the Shares. A call may be revoked or postponed as the Directors may determine. A call may be required to be paid by instalments. A person upon whom a call is made shall remain liable for calls made upon him notwithstanding the subsequent transfer of the Shares in respect of which the call was made.

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29 A call shall be deemed to have been made at the time when the resolution of the Directors authorising such call was passed.

30 The joint holders of a Share shall be jointly and severally liable to pay all calls in respect thereof.

31 If a call remains unpaid after it has become due and payable, the person from whom it is due shall pay interest on the amount unpaid from the day it became due and payable until it is paid at such rate as the Directors may determine, but the Directors may waive payment of the interest wholly or in part.

32 An amount payable in respect of a Share on allotment or at any fixed date, whether on account of the par value of the Share or premium or otherwise, shall be deemed to be a call and if it is not paid all the provisions of these Articles shall apply as if that amount had become due and payable by virtue of a call.

33 The Directors may issue Shares with different terms as to the amount and times of payment of calls, or the interest to be paid.

34 The Directors may, if they think fit, receive an amount from any Member willing to advance all or any part of the monies uncalled and unpaid upon any Shares held by him, and may (until the amount would otherwise become payable) pay interest at such rate as may be agreed upon between the Directors and the Member paying such amount in advance.

35 No such amount paid in advance of calls shall entitle the Member paying such amount to any portion of a Dividend declared in respect of any period prior to the date upon which such amount would, but for such payment, become payable.

FORFEITURE OF SHARES

36 If a call remains unpaid after it has become due and payable the Directors may give to the person from whom it is due not less than fourteen clear days notice requiring payment of the amount unpaid together with any interest, which may have accrued. The notice shall specify where payment is to be made and shall state that if the notice is not complied with the Shares in respect of which the call was made will be liable to be forfeited.

37 If the notice is not complied with any Share in respect of which it was given may, before the payment required by the notice has been made, be forfeited by a resolution of the Directors. Such forfeiture shall include all Dividends or other monies declared payable in respect of the forfeited Share and not paid before the forfeiture.

38 A forfeited Share may be sold, re-allotted or otherwise disposed of on such terms and in such manner as the Directors think fit and at any time before a sale, re-allotment or disposition the forfeiture may be cancelled on such terms as the Directors think fit. Where for the purposes of its disposal a forfeited Share is to be transferred to any person the Directors may authorise some person to execute an instrument of transfer of the Share in favour of that person.

39 A person any of whose Shares have been forfeited shall cease to be a Member in respect of them and shall surrender to the Company for cancellation the certificate for the Shares forfeited and shall remain liable to pay to the Company all monies which at the date of forfeiture were payable by him to the Company in respect of those Shares together with

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interest, but his liability shall cease if and when the Company shall have received payment in full of all monies due and payable by him in respect of those Shares.

40 A certificate in writing under the hand of one Director or officer of the Company that a Share has been forfeited on a specified date shall be conclusive evidence of the fact as against all persons claiming to be entitled to the Share. The certificate shall (subject to the execution of an instrument of transfer) constitute a good title to the Share and the person to whom the Share is disposed of shall not be bound to see to the application of the purchase money, if any, nor shall his title to the Share be affected by any irregularity or invalidity in the proceedings in reference to the forfeiture, sale or disposal of the Share.

41 The provisions of these Articles as to forfeiture shall apply in the case of non-payment of any sum which, by the terms of issue of a Share, becomes payable at a fixed time, whether on account of the par value of the Share or by way of premium as if it had been payable by virtue of a call duly made and notified.

TRANSMISSION OF SHARES

42 If a Member dies the survivor or survivors where he was a joint holder, and his legal personal representatives where he was a sole holder, shall be the only persons recognised by the Company as having any title to his interest. The estate of a deceased Member is not thereby released from any liability in respect of any Share, which had been jointly held by him.

43 Any person becoming entitled to a Share in consequence of the death or bankruptcy or liquidation or dissolution of a Member (or in any other way than by transfer) may, upon such evidence being produced as may from time to time be required by the Directors, elect either to become the holder of the Share or to have some person nominated by him as the transferee. If he elects to become the holder he shall give notice to the Company to that effect, but the Directors shall, in either case, have the same right to decline or suspend registration as they would have had in the case of a transfer of the Share by that Member before his death or bankruptcy, as the case may be.

44 If the person so becoming entitled shall elect to be registered himself as holder he shall deliver or send to the Company a notice in writing signed by him stating that he so elects.

45 A person becoming entitled to a Share by reason of the death or bankruptcy or liquidation or dissolution of the holder (or in any other case than by transfer) shall be entitled to the same Dividends and other advantages to which he would be entitled if he were the registered holder of the Share. However, he shall not, before being registered as a Member in respect of the Share, be entitled in respect of it to exercise any right conferred by membership in relation to meetings of the Company and the Directors may at any time give notice requiring any such person to elect either to be registered himself or to transfer the Share. If the notice is not complied with within ninety days the Directors may thereafter withhold payment of all Dividends, bonuses or other monies payable in respect of the Share until the requirements of the notice have been complied with.

AMENDMENTS OF MEMORANDUM AND ARTICLES OF ASSOCIATION AND ALTERATION OF CAPITAL

46 The Company may by Ordinary Resolution:

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46.1 increase the share capital by such sum as the resolution shall prescribe and with such rights, priorities and privileges annexed thereto, as the Company in general meeting may determine;

46.2 consolidate and divide all or any of its share capital into Shares of larger amount than its existing Shares;

46.3 by subdivision of its existing Shares or any of them divide the whole or any part of its share capital into Shares of smaller amount than is fixed by the Memorandum or into Shares without par value; and

46.4 cancel any Shares that at the date of the passing of the resolution have not been taken or agreed to be taken by any person.

47 All new Shares created in accordance with the provisions of the preceding Article shall be subject to the same provisions of the Articles with reference to the payment of calls, liens, transfer, transmission, forfeiture and otherwise as the Shares in the original share capital.

48 Subject to the provisions of the Statute and the provisions of these Articles as regards the matters to be dealt with by Ordinary Resolution, the Company may by Special Resolution:

48.1 change its name;

48.2 alter or add to these Articles;

48.3 alter or add to the Memorandum with respect to any objects, powers or other matters specified therein; and

48.4 reduce its share capital and any capital redemption reserve fund.

REGISTERED OFFICE

49 Subject to the provisions of the Statute, the Company may by resolution of the Directors change the location of its Registered Office.

GENERAL MEETINGS

50 All general meetings other than annual general meetings shall be called extraordinary general meetings.

51 The Company shall, if required by the Statute, in each year hold a general meeting as its annual general meeting, and shall specify the meeting as such in the notices calling it. The annual general meeting shall be held at such time and place as the Directors shall appoint and if no other time and place is prescribed by them, it shall be held at the Registered Office on the second Wednesday in December of each year at ten o'clock in the morning. At these meetings the report of the Directors (if any) shall be presented.

52 The Company may hold an annual general meeting, but shall not (unless required by Statute) be obliged to hold an annual general meeting.

53 The Directors may call general meetings, and they shall on a Members requisition forthwith proceed to convene an extraordinary general meeting of the Company.

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54 A Members requisition is a requisition of Members of the Company holding at the date of deposit of the requisition not less than ten per cent. in par value of the capital of the Company which as at that date carries the right of voting at general meetings of the Company.

55 The requisition must state the objects of the meeting and must be signed by the requisitionists and deposited at the Registered Office, and may consist of several documents in like form each signed by one or more requisitionists.

56 If the Directors do not within twenty-one days from the date of the deposit of the requisition duly proceed to convene a general meeting to be held within a further twenty-one days, the requisitionists, or any of them representing more than one-half of the total voting rights of all of them, may themselves convene a general meeting, but any meeting so convened shall not be held after the expiration of three months after the expiration of the said twenty-one days.

57 A general meeting convened as aforesaid by requisitionists shall be convened in the same manner as nearly as possible as that in which general meetings are to be convened by Directors.

NOTICE OF GENERAL MEETINGS

58 At least five days' notice shall be given of any general meeting. Every notice shall be exclusive of the day on which it is given or deemed to be given and of the day for which it is given and shall specify the place, the day and the hour of the meeting and the general nature of the business and shall be given in manner hereinafter mentioned or in such other manner if any as may be prescribed by the Company, provided that a general meeting of the Company shall, whether or not the notice specified in this regulation has been given and whether or not the provisions of the Articles regarding general meetings have been complied with, be deemed to have been duly convened if it is so agreed:

58.1 in the case of an annual general meeting, by all the Members (or their proxies) entitled to attend and vote thereat; and

58.2 in the case of an extraordinary general meeting, by a majority in number of the Members (or their proxies) having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent. in par value of the Shares giving that right.

59 The accidental omission to give notice of a general meeting to, or the non-receipt of notice of a meeting by, any person entitled to receive notice shall not invalidate the proceedings of that meeting.

PROCEEDINGS AT GENERAL MEETINGS

60 No business shall be transacted at any general meeting unless a quorum is present. Two Members being individuals present in person or by proxy or if a corporation or other non-natural person by its duly authorised representative shall be a quorum unless the Company has only one Member entitled to vote at such general meeting in which case the quorum shall be that one Member present in person or by proxy or (in the case of a corporation or other non-natural person) by a duly authorised representative.

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61 A person may participate at a general meeting by conference telephone or other communications equipment by means of which all the persons participating in the meeting can communicate with each other. Participation by a person in a general meeting in this manner is treated as presence in person at that meeting.

62 A resolution (including a Special Resolution) in writing (in one or more counterparts) signed by all Members for the time being entitled to receive notice of and to attend and vote at general meetings (or, being corporations, signed by their duly authorised representatives) shall be as valid and effective as if the resolution had been passed at a general meeting of the Company duly convened and held.

63 If a quorum is not present within half an hour from the time appointed for the meeting or if during such a meeting a quorum ceases to be present, the meeting, if convened upon the requisition of Members, shall be dissolved and in any other case it shall stand adjourned to the same day in the next week at the same time and place or to such other day, time or such other place as the Directors may determine, and if at the adjourned meeting a quorum is not present within half an hour from the time appointed for the meeting the Members present shall be a quorum.

64 The chairman, if any, of the board of Directors shall preside as chairman at every general meeting of the Company, or if there is no such chairman, or if he shall not be present within fifteen minutes after the time appointed for the holding of the meeting, or is unwilling to act, the Directors present shall elect one of their number to be chairman of the meeting.

65 If no Director is willing to act as chairman or if no Director is present within fifteen minutes after the time appointed for holding the meeting, the Members present shall choose one of their number to be chairman of the meeting.

66 The chairman may, with the consent of a meeting at which a quorum is present, (and shall if so directed by the meeting), adjourn the meeting from time to time and from place to place, but no business shall be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place. When a general meeting is adjourned for thirty days or more, notice of the adjourned meeting shall be given as in the case of an original meeting. Otherwise it shall not be necessary to give any such notice.

67 A resolution put to the vote of the meeting shall be decided on a show of hands unless before, or on the declaration of the result of, the show of hands, the chairman demands a poll, or any other Member or Members collectively present in person or by proxy and holding at least ten per cent. in par value of the Shares giving a right to attend and vote at the meeting demand a poll.

68 Unless a poll is duly demanded a declaration by the chairman that a resolution has been carried or carried unanimously, or by a particular majority, or lost or not carried by a particular majority, an entry to that effect in the minutes of the proceedings of the meeting shall be conclusive evidence of that fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.

69 The demand for a poll may be withdrawn.

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70 Except on a poll demanded on the election of a chairman or on a question of adjournment, a poll shall be taken as the chairman directs, and the result of the poll shall be deemed to be the resolution of the general meeting at which the poll was demanded.

71 A poll demanded on the election of a chairman or on a question of adjournment shall be taken forthwith. A poll demanded on any other question shall be taken at such time as the chairman of the general meeting directs, and any business other than that upon which a poll has been demanded or is contingent thereon may proceed pending the taking of the poll.

72 In the case of an equality of votes, whether on a show of hands or on a poll, the chairman shall be entitled to a second or casting vote.

VOTES OF MEMBERS

73 Subject to any rights or restrictions attached to any Shares, on a show of hands every Member who (being an individual) is present in person or by proxy or, if a corporation or other non-natural person is present by its duly authorised representative or proxy, shall have one vote and on a poll every Member shall have one vote for every Share of which he is the holder.

74 In the case of joint holders of record the vote of the senior holder who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and seniority shall be determined by the order in which the names of the holders stand in the Register of Members.

75 A Member of unsound mind, or in respect of whom an order has been made by any court, having jurisdiction in lunacy, may vote, whether on a show of hands or on a poll, by his committee, receiver, curator bonis, or other person on such Member's behalf appointed by that court, and any such committee, receiver, curator bonis or other person may vote by proxy.

76 No person shall be entitled to vote at any general meeting or at any separate meeting of the holders of a class of Shares unless he is registered as a Member on the record date for such meeting nor unless all calls or other monies then payable by him in respect of Shares have been paid.

77 No objection shall be raised to the qualification of any voter except at the general meeting or adjourned general meeting at which the vote objected to is given or tendered and every vote not disallowed at the meeting shall be valid. Any objection made in due time shall be referred to the chairman whose decision shall be final and conclusive.

78 On a poll or on a show of hands votes may be cast either personally or by proxy. A Member may appoint more than one proxy or the same proxy under one or more instruments to attend and vote at a meeting. Where a Member appoints more than one proxy the instrument of proxy shall state which proxy is entitled to vote on a show of hands.

79 A Member holding more than one Share need not cast the votes in respect of his Shares in the same way on any resolution and therefore may vote a Share or some or all such Shares either for or against a resolution and/or abstain from voting a Share or some or all of the Shares and, subject to the terms of the instrument appointing him, a proxy

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appointed under one or more instruments may vote a Share or some or all of the Shares in respect of which he is appointed either for or against a resolution and/or abstain from voting.

PROXIES

80 The instrument appointing a proxy shall be in writing, be executed under the hand of the appointor or of his attorney duly authorised in writing, or, if the appointor is a corporation under the hand of an officer or attorney duly authorised for that purpose. A proxy need not be a Member of the Company.

81 The instrument appointing a proxy shall be deposited at the Registered Office or at such other place as is specified for that purpose in the notice convening the meeting, or in any instrument of proxy sent out by the Company:

81.1 not less than 48 hours before the time for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote; or

81.2 in the case of a poll taken more than 48 hours after it is demanded, be deposited as aforesaid after the poll has been demanded and not less than 24 hours before the time appointed for the taking of the poll; or

81.3 where the poll is not taken forthwith but is taken not more than 48 hours after it was demanded be delivered at the meeting at which the poll was demanded to the chairman or to the secretary or to any director;

provided that the Directors may in the notice convening the meeting, or in an instrument of proxy sent out by the Company, direct that the instrument appointing a proxy may be deposited (no later than the time for holding the meeting or adjourned meeting) at the Registered Office or at such other place as is specified for that purpose in the notice convening the meeting, or in any instrument of proxy sent out by the Company. The chairman may in any event at his discretion direct that an instrument of proxy shall be deemed to have been duly deposited. An instrument of proxy that is not deposited in the manner permitted shall be invalid.

82 The instrument appointing a proxy may be in any usual or common form and may be expressed to be for a particular meeting or any adjournment thereof or generally until revoked. An instrument appointing a proxy shall be deemed to include the power to demand or join or concur in demanding a poll.

83 Votes given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or insanity of the principal or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the Share in respect of which the proxy is given unless notice in writing of such death, insanity, revocation or transfer was received by the Company at the Registered Office before the commencement of the general meeting, or adjourned meeting at which it is sought to use the proxy.

CORPORATE MEMBERS

84 Any corporation or other non-natural person which is a Member may in accordance with its constitutional documents, or in the absence of such provision by resolution of its directors or other governing body, authorise such person as it thinks fit to act as its

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representative at any meeting of the Company or of any class of Members, and the person so authorised shall be entitled to exercise the same powers on behalf of the corporation which he represents as the corporation could exercise if it were an individual Member.

SHARES THAT MAY NOT BE VOTED

85 Shares in the Company that are beneficially owned by the Company shall not be voted, directly or indirectly, at any meeting and shall not be counted in determining the total number of outstanding Shares at any given time.

DIRECTORS

86 There shall be a board of Directors consisting of not less than one person (exclusive of alternate Directors) provided however that the Company may from time to time by Ordinary Resolution increase or reduce the limits in the number of Directors. The first Directors of the Company shall be determined in writing by, or appointed by a resolution of, the subscribers.

POWERS OF DIRECTORS

87 Subject to the provisions of the Statute, the Memorandum and the Articles and to any directions given by Special Resolution, the business of the Company shall be managed by the Directors who may exercise all the powers of the Company. No alteration of the Memorandum or Articles and no such direction shall invalidate any prior act of the Directors which would have been valid if that alteration had not been made or that direction had not been given. A duly convened meeting of Directors at which a quorum is present may exercise all powers exercisable by the Directors.

88 All cheques, promissory notes, drafts, bills of exchange and other negotiable instruments and all receipts for monies paid to the Company shall be signed, drawn, accepted, endorsed or otherwise executed as the case may be in such manner as the Directors shall determine by resolution.

89 The Directors on behalf of the Company may pay a gratuity or pension or allowance on retirement to any Director who has held any other salaried office or place of profit with the Company or to his widow or dependants and may make contributions to any fund and pay premiums for the purchase or provision of any such gratuity, pension or allowance.

90 The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and uncalled capital or any part thereof and to issue debentures, debenture stock, mortgages, bonds and other such securities whether outright or as security for any debt, liability or obligation of the Company or of any third party.

APPOINTMENT AND REMOVAL OF DIRECTORS

91 The Company may by Ordinary Resolution appoint any person to be a Director or may by Ordinary Resolution remove any Director.

92 The Directors may appoint any person to be a Director, either to fill a vacancy or as an additional Director provided that the appointment does not cause the number of Directors to exceed any number fixed by or in accordance with the Articles as the maximum number of Directors.

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VACATION OF OFFICE OF DIRECTOR

93 The office of a Director shall be vacated if:

93.1 he gives notice in writing to the Company that he resigns the office of Director; or

93.2 if he absents himself (without being represented by proxy or an alternate Director appointed by him) from three consecutive meetings of the board of Directors without special leave of absence from the Directors, and they pass a resolution that he has by reason of such absence vacated office; or

93.3 if he dies, becomes bankrupt or makes any arrangement or composition with his creditors generally; or

93.4 if he is found to be or becomes of unsound mind; or

93.5 if all the other Directors of the Company (being not less than two in number) resolve that he should be removed as a Director..

PROCEEDINGS OF DIRECTORS

94 The quorum for the transaction of the business of the Directors may be fixed by the Directors, and unless so fixed shall be two if there are two or more Directors, and shall be one if there is only one Director. A person who holds office as an alternate Director shall, if his appointor is not present, be counted in the quorum. A Director who also acts as an alternate Director shall, if his appointor is not present, count twice towards the quorum.

95 Subject to the provisions of the Articles, the Directors may regulate their proceedings as they think fit. Questions arising at any meeting shall be decided by a majority of votes. In the case of an equality of votes, the chairman shall have a second or casting vote. A Director who is also an alternate Director shall be entitled in the absence of his appointor to a separate vote on behalf of his appointor in addition to his own vote.

96 A person may participate in a meeting of the Directors or committee of Directors by conference telephone or other communications equipment by means of which all the persons participating in the meeting can communicate with each other at the same time. Participation by a person in a meeting in this manner is treated as presence in person at that meeting. Unless otherwise determined by the Directors the meeting shall be deemed to be held at the place where the chairman is at the start of the meeting.

97 A resolution in writing (in one or more counterparts) signed by all the Directors or all the members of a committee of Directors (an alternate Director being entitled to sign such a resolution on behalf of his appointor) shall be as valid and effectual as if it had been passed at a meeting of the Directors, or committee of Directors as the case may be, duly convened and held.

98 A Director or alternate Director may, or other officer of the Company on the requisition of a Director or alternate Director shall, call a meeting of the Directors by at least two days' notice in writing to every Director and alternate Director which notice shall set forth the general nature of the business to be considered unless notice is waived by all the Directors (or their alternates) either at, before or after the meeting is held.

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99 The continuing Directors may act notwithstanding any vacancy in their body, but if and so long as their number is reduced below the number fixed by or pursuant to these Articles as the necessary quorum of Directors the continuing Directors or Director may act for the purpose of increasing the number of Directors to that number, or of summoning a general meeting of the Company, but for no other purpose.

100 The Directors may elect a chairman of their board and determine the period for which he is to hold office; but if no such chairman is elected, or if at any meeting the chairman is not present within five minutes after the time appointed for holding the same, the Directors present may choose one of their number to be chairman of the meeting.

101 All acts done by any meeting of the Directors or of a committee of Directors (including any person acting as an alternate Director) shall, notwithstanding that it be afterwards discovered that there was some defect in the appointment of any Director or alternate Director, or that they or any of them were disqualified, be as valid as if every such person had been duly appointed and qualified to be a Director or alternate Director as the case may be.

102 A Director but not an alternate Director may be represented at any meetings of the board of Directors by a proxy appointed in writing by him. The proxy shall count towards the quorum and the vote of the proxy shall for all purposes be deemed to be that of the appointing Director.

PRESUMPTION OF ASSENT

103 A Director of the Company who is present at a meeting of the board of Directors at which action on any Company matter is taken shall be presumed to have assented to the action taken unless his dissent shall be entered in the minutes of the meeting or unless he shall file his written dissent from such action with the person acting as the chairman or secretary of the meeting before the adjournment thereof or shall forward such dissent by registered post to such person immediately after the adjournment of the meeting. Such right to dissent shall not apply to a Director who voted in favour of such action.

DIRECTORS' INTERESTS

104 A Director may hold any other office or place of profit under the Company (other than the office of Auditor) in conjunction with his office of Director for such period and on such terms as to remuneration and otherwise as the Directors may determine.

105 A Director may act by himself or his firm in a professional capacity for the Company and he or his firm shall be entitled to remuneration for professional services as if he were not a Director or alternate Director.

106 A Director or alternate Director of the Company may be or become a director or other officer of or otherwise interested in any company promoted by the Company or in which the Company may be interested as shareholder or otherwise, and no such Director or alternate Director shall be accountable to the Company for any remuneration or other benefits received by him as a director or officer of, or from his interest in, such other company.

107 No person shall be disqualified from the office of Director or alternate Director or prevented by such office from contracting with the Company, either as vendor, purchaser

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or otherwise, nor shall any such contract or any contract or transaction entered into by or on behalf of the Company in which any Director or alternate Director shall be in any way interested be or be liable to be avoided, nor shall any Director or alternate Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or transaction by reason of such Director holding office or of the fiduciary relation thereby established. A Director (or his alternate Director in his absence) shall be at liberty to vote in respect of any contract or transaction in which he is interested provided that the nature of the interest of any Director or alternate Director in any such contract or transaction shall be disclosed by him at or prior to its consideration and any vote thereon.

108 A general notice that a Director or alternate Director is a shareholder, director, officer or employee of any specified firm or company and is to be regarded as interested in any transaction with such firm or company shall be sufficient disclosure for the purposes of voting on a resolution in respect of a contract or transaction in which he has an interest, and after such general notice it shall not be necessary to give special notice relating to any particular transaction.

MINUTES

109 The Directors shall cause minutes to be made in books kept for the purpose of all appointments of officers made by the Directors, all proceedings at meetings of the Company or the holders of any class of Shares and of the Directors, and of committees of Directors including the names of the Directors or alternate Directors present at each meeting.

DELEGATION OF DIRECTORS' POWERS

110 The Directors may delegate any of their powers to any committee consisting of one or more Directors. They may also delegate to any managing director or any Director holding any other executive office such of their powers as they consider desirable to be exercised by him provided that an alternate Director may not act as managing director and the appointment of a managing director shall be revoked forthwith if he ceases to be a Director. Any such delegation may be made subject to any conditions the Directors may impose, and either collaterally with or to the exclusion of their own powers and may be revoked or altered. Subject to any such conditions, the proceedings of a committee of Directors shall be governed by the Articles regulating the proceedings of Directors, so far as they are capable of applying.

111 The Directors may establish any committees, local boards or agencies or appoint any person to be a manager or agent for managing the affairs of the Company and may appoint any person to be a member of such committees or local boards. Any such appointment may be made subject to any conditions the Directors may impose, and either collaterally with or to the exclusion of their own powers and may be revoked or altered. Subject to any such conditions, the proceedings of any such committee, local board or agency shall be governed by the Articles regulating the proceedings of Directors, so far as they are capable of applying.

112 The Directors may by power of attorney or otherwise appoint any person to be the agent of the Company on such conditions as the Directors may determine, provided that the

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delegation is not to the exclusion of their own powers and may be revoked by the Directors at any time.

113 The Directors may by power of attorney or otherwise appoint any company, firm, person or body of persons, whether nominated directly or indirectly by the Directors, to be the attorney or authorised signatory of the Company for such purpose and with such powers, authorities and discretions (not exceeding those vested in or exercisable by the Directors under these Articles) and for such period and subject to such conditions as they may think fit, and any such powers of attorney or other appointment may contain such provisions for the protection and convenience of persons dealing with any such attorneys or authorised signatories as the Directors may think fit and may also authorise any such attorney or authorised signatory to delegate all or any of the powers, authorities and discretions vested in him.

114 The Directors may appoint such officers as they consider necessary on such terms, at such remuneration and to perform such duties, and subject to such provisions as to disqualification and removal as the Directors may think fit. Unless otherwise specified in the terms of his appointment an officer may be removed by resolution of the Directors or Members.

ALTERNATE DIRECTORS

115 Any Director (other than an alternate Director) may by writing appoint any other Director, or any other person willing to act, to be an alternate Director and by writing may remove from office an alternate Director so appointed by him.

116 An alternate Director shall be entitled to receive notice of all meetings of Directors and of all meetings of committees of Directors of which his appointor is a member, to attend and vote at every such meeting at which the Director appointing him is not personally present, and generally to perform all the functions of his appointor as a Director in his absence.

117 An alternate Director shall cease to be an alternate Director if his appointor ceases to be a Director.

118 Any appointment or removal of an alternate Director shall be by notice to the Company signed by the Director making or revoking the appointment or in any other manner approved by the Directors.

119 An alternate Director shall be deemed for all purposes to be a Director and shall alone be responsible for his own acts and defaults and shall not be deemed to be the agent of the Director appointing him.

NO MINIMUM SHAREHOLDING

120 The Company in general meeting may fix a minimum shareholding required to be held by a Director, but unless and until such a shareholding qualification is fixed a Director is not required to hold Shares.

REMUNERATION OF DIRECTORS

121 The remuneration to be paid to the Directors, if any, shall be such remuneration as the Directors shall determine. The Directors shall also be entitled to be paid all travelling,

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hotel and other expenses properly incurred by them in connection with their attendance at meetings of Directors or committees of Directors, or general meetings of the Company, or separate meetings of the holders of any class of Shares or debentures of the Company, or otherwise in connection with the business of the Company, or to receive a fixed allowance in respect thereof as may be determined by the Directors, or a combination partly of one such method and partly the other.

122 The Directors may by resolution approve additional remuneration to any Director for any services other than his ordinary routine work as a Director. Any fees paid to a Director who is also counsel or solicitor to the Company, or otherwise serves it in a professional capacity shall be in addition to his remuneration as a Director.

SEAL

123 The Company may, if the Directors so determine, have a Seal. The Seal shall only be used by the authority of the Directors or of a committee of the Directors authorised by the Directors. Every instrument to which the Seal has been affixed shall be signed by at least one person who shall be either a Director or some officer or other person appointed by the Directors for the purpose.

124 The Company may have for use in any place or places outside the Cayman Islands a duplicate Seal or Seals each of which shall be a facsimile of the common Seal of the Company and, if the Directors so determine, with the addition on its face of the name of every place where it is to be used.

125 A Director or officer, representative or attorney of the Company may without further authority of the Directors affix the Seal over his signature alone to any document of the Company required to be authenticated by him under seal or to be filed with the Registrar of Companies in the Cayman Islands or elsewhere wheresoever.

DVIIIDENDS, DISTRIBUTIONS AND RESERVE

126 Subject to the Statute and this Article, the Directors may declare Dividends and distributions on Shares in issue and authorise payment of the Dividends or distributions out of the funds of the Company lawfully available therefor. No Dividend or distribution shall be paid except out of the realised or unrealised profits of the Company, or out of the share premium account or as otherwise permitted by the Statute.

127 Except as otherwise provided by the rights attached to Shares, all Dividends shall be declared and paid according to the par value of the Shares that a Member holds. If any Share is issued on terms providing that it shall rank for Dividend as from a particular date, that Share shall rank for Dividend accordingly.

128 The Directors may deduct from any Dividend or distribution payable to any Member all sums of money (if any) then payable by him to the Company on account of calls or otherwise.

129 The Directors may declare that any Dividend or distribution be paid wholly or partly by the distribution of specific assets and in particular of shares, debentures, or securities of any other company or in any one or more of such ways and where any difficulty arises in regard to such distribution, the Directors may settle the same as they think expedient and in particular may issue fractional Shares and fix the value for distribution of such specific

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assets or any part thereof and may determine that cash payments shall be made to any Members upon the basis of the value so fixed in order to adjust the rights of all Members and may vest any such specific assets in trustees as may seem expedient to the Directors.

130 Any Dividend, distribution, interest or other monies payable in cash in respect of Shares may be paid by wire transfer to the holder or by cheque or warrant sent through the post directed to the registered address of the holder or, in the case of joint holders, to the registered address of the holder who is first named on the Register of Members or to such person and to such address as such holder or joint holders may in writing direct. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent. Any one of two or more joint holders may give effectual receipts for any Dividends, bonuses, or other monies payable in respect of the Share held by them as joint holders.

131 No Dividend or distribution shall bear interest against the Company.

132 Any Dividend which cannot be paid to a Member and/or which remains unclaimed after six months from the date of declaration of such Dividend may, in the discretion of the Directors, be paid into a separate account in the Company's name, provided that the Company shall not be constituted as a trustee in respect of that account and the Dividend shall remain as a debt due to the Member. Any Dividend which remains unclaimed after a period of six years from the date of declaration of such Dividend shall be forfeited and shall revert to the Company.

CAPITALISATION

133 The Directors may capitalise any sum standing to the credit of any of the Company's reserve accounts (including share premium account and capital redemption reserve fund) or any sum standing to the credit of profit and loss account or otherwise available for distribution and to appropriate such sum to Members in the proportions in which such sum would have been divisible amongst them had the same been a distribution of profits by way of Dividend and to apply such sum on their behalf in paying up in full unissued Shares for allotment and distribution credited as fully paid-up to and amongst them in the proportion aforesaid. In such event the Directors shall do all acts and things required to give effect to such capitalisation, with full power to the Directors to make such provisions as they think fit for the case of Shares becoming distributable in fractions (including provisions whereby the benefit of fractional entitlements accrue to the Company rather than to the Members concerned). The Directors may authorise any person to enter on behalf of all of the Members interested into an agreement with the Company providing for such capitalisation and matters incidental thereto and any agreement made under such authority shall be effective and binding on all concerned.

BOOKS OF ACCOUNT

134 The Directors shall cause proper books of account to be kept with respect to all sums of money received and expended by the Company and the matters in respect of which the receipt or expenditure takes place, all sales and purchases of goods by the Company and the assets and liabilities of the Company. Proper books shall not be deemed to be kept if there are not kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to explain its transactions.

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135 The Directors shall from time to time determine whether and to what extent and at what times and places and under what conditions or regulations the accounts and books of the Company or any of them shall be open to the inspection of Members not being Directors and no Member (not being a Director) shall have any right of inspecting any account or book or document of the Company except as conferred by Statute or authorised by the Directors or by the Company in general meeting.

136 The Directors may from time to time cause to be prepared and to be laid before the Company in general meeting profit and loss accounts, balance sheets, group accounts (if any) and such other reports and accounts as may be required by law.

AUDIT

137 The Directors may appoint an Auditor of the Company who shall hold office until removed from office by a resolution of the Directors, and may fix his or their remuneration.

138 Every Auditor of the Company shall have a right of access at all times to the books and accounts and vouchers of the Company and shall be entitled to require from the Directors and officers of the Company such information and explanation as may be necessary for the performance of the duties of the Auditor.

139 Auditors shall, if so required by the Directors, make a report on the accounts of the Company during their tenure of office at the next annual general meeting following their appointment in the case of a company which is registered with the Registrar of Companies as an ordinary company, and at the next extraordinary general meeting following their appointment in the case of a company which is registered with the Registrar of Companies as an exempted company, and at any other time during their term of office, upon request of the Directors or any general meeting of the Members.

NOTICES

140 Notices shall be in writing and may be given by the Company to any Member either personally or by sending it by courier, post, cable, telex, fax or e-mail to him or to his address as shown in the Register of Members (or where the notice is given by e-mail by sending it to the e-mail address provided by such Member). Any notice, if posted from one country to another, is to be sent airmail.

141 Where a notice is sent by courier, service of the notice shall be deemed to be effected by delivery of the notice to a courier company, and shall be deemed to have been received on the third day (not including Saturdays or Sundays or public holidays) following the day on which the notice was delivered to the courier. Where a notice is sent by post, service of the notice shall be deemed to be effected by properly addressing, pre-paying and posting a letter containing the notice, and shall be deemed to have been received on the fifth day (not including Saturdays or Sundays or public holidays) following the day on which the notice was posted. Where a notice is sent by cable, telex or fax, service of the notice shall be deemed to be effected by properly addressing and sending such notice and shall be deemed to have been received on the same day that it was transmitted. Where a notice is given by e-mail service shall be deemed to be effected by transmitting the e-mail to the e-mail address provided by the intended recipient and shall be deemed to

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have been received on the same day that it was sent, and it shall not be necessary for the receipt of the e-mail to be acknowledged by the recipient.

142 A notice may be given by the Company to the person or persons which the Company has been advised are entitled to a Share or Shares in consequence of the death or bankruptcy of a Member in the same manner as other notices which are required to be given under these Articles and shall be addressed to them by name, or by the title of representatives of the deceased, or trustee of the bankrupt, or by any like description at the address supplied for that purpose by the persons claiming to be so entitled, or at the option of the Company by giving the notice in any manner in which the same might have been given if the death or bankruptcy had not occurred.

143 Notice of every general meeting shall be given in any manner hereinbefore authorised to every person shown as a Member in the Register of Members on the record date for such meeting except that in the case of joint holders the notice shall be sufficient if given to the joint holder first named in the Register of Members and every person upon whom the ownership of a Share devolves by reason of his being a legal personal representative or a trustee in bankruptcy of a Member of record where the Member of record but for his death or bankruptcy would be entitled to receive notice of the meeting, and no other person shall be entitled to receive notices of general meetings.

WINDING UP

144 If the Company shall be wound up, and the assets available for distribution amongst the Members shall be insufficient to repay the whole of the share capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the Members in proportion to the par value of the Shares held by them. If in a winding up the assets available for distribution amongst the Members shall be more than sufficient to repay the whole of the share capital at the commencement of the winding up, the surplus shall be distributed amongst the Members in proportion to the par value of the Shares held by them at the commencement of the winding up subject to a deduction from those Shares in respect of which there are monies due, of all monies payable to the Company for unpaid calls or otherwise. This Article is without prejudice to the rights of the holders of Shares issued upon special terms and conditions.

145 If the Company shall be wound up the liquidator may, with the sanction of a Special Resolution of the Company and any other sanction required by the Statute, divide amongst the Members in kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may for that purpose value any assets and determine how the division shall be carried out as between the Members or different classes of Members. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the Members as the liquidator, with the like sanction, shall think fit, but so that no Member shall be compelled to accept any asset upon which there is a liability.

INDEMNITY

146 Every Director, agent or officer of the Company shall be indemnified out of the assets of the Company against any liability incurred by him as a result of any act or failure to act in carrying out his functions other than such liability (if any) that he may incur by his own

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wilful neglect or default. No such Director, agent or officer shall be liable to the Company for any loss or damage in carrying out his functions unless that liability arises through the wilful neglect or default of such Director, agent or officer.

FINANCIAL YEAR

147 Unless the Directors otherwise prescribe, the financial year of the Company shall end on 31st December in each year and, following the year of incorporation, shall begin on 1st January in each year.

TRANSFER BY WAY OF CONTINUATION

148 If the Company is exempted as defined in the Statute, it shall, subject to the provisions of the Statute and with the approval of a Special Resolution, have the power to register by way of continuation as a body corporate under the laws of any jurisdiction outside the Cayman Islands and to be deregistered in the Cayman Islands.

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DATED this 20th day of October, 2006.

M&C Corporate Services Limited
of PO Box 309GT, Ugland House
South Church Street, George Town,
Grand Cayman, Cayman Islands
acting by:

Anna Propper

John Dykstra

Allison Smith

Witness to the above signatures

I, Joy A. Rankine, Asst. Registrar of Companies in and for the Cayman Islands DO HEREBY CERTIFY that this is a true and correct copy of the Articles of Association of this Company duly incorporated on 20th day of October, 2006.

Asst. REGISTRAR OF COMPANIES

REGISTRAR OF COMPANIES EXEMPTED CAYMAN ISLANDS

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EXECUTION COPY

GEMSTONE CDO VII LTD.
Issuer

DEUTSCHE BANK TRUST COMPANY AMERICAS
Preference Share Paying Agent and Transfer Agent

and

DEUTSCHE BANK (CAYMAN) LIMITED
Share Registrar

PREFERENCE SHARE PAYING AGENCY AGREEMENT

(Relating to the Issuer's Preference Shares)

Dated as of March 15, 2007

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1358

GEM7-00001089

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PREFERENCE SHARE PAYING AGENCY AGREEMENT, dated as of March 15, 2007 (this "**Agreement**"), among GEMSTONE CDO VII LTD., a limited liability company incorporated under the laws of the Cayman Islands (together with its permitted successors and assigns, the "**Issuer**"), DEUTSCHE BANK TRUST COMPANY AMERICAS, a national banking association, as the Paying Agent hereunder (in such capacity, together with its permitted successors and assigns, the "**Paying Agent**") and as the Transfer Agent hereunder (in such capacity, together with its permitted successors and assigns, the "**Transfer Agent**"), and DEUTSCHE BANK (CAYMAN) LIMITED, a licensed trust company incorporated in the Cayman Islands, as the share registrar (the "**Share Registrar**" and, together with the Paying Agent and the Transfer Agent, the "**Agents**").

PRELIMINARY STATEMENT

The Issuer may, pursuant to an Indenture dated as of the date hereof (the "**Indenture**"), among the Issuer, GEMSTONE CDO VII CORP., a Delaware corporation, as the Co-Issuer (the "**Co-Issuer**" and, together with the Issuer, the "**Co-Issuers**") and DEUTSCHE BANK TRUST COMPANY AMERICAS, as the Trustee thereunder (the "**Trustee**"), issue up to (i) $244,000,000 Class A-1a Floating Rate Notes due December 2045, $400,000,000 Class A-1b Floating Rate Notes due December 2045, $159,000,000 Class A-2 Floating Rate Notes due December 2045, $96,900,000 Class B Floating Rate Notes due December 2045, $68,300,000 Class C Floating Rate Deferrable Interest Notes due December 2045, $55,100,000 Class D Floating Rate Deferrable Interest Notes due December 2045 and $18,700,000 Class E Floating Rate Deferrable Interest Notes due December 2045 (collectively, the "**Notes**").

As authorized by the Issuer and permitted under the terms of the Indenture, the Issuer may issue up to 59,500 Preference Shares having a par value of $0.01 per share and a liquidation preference of $1,000 per share (the "**Preference Shares**"), the dividends and other distributions on which are payable in accordance with the Memorandum and Articles of Association of the Issuer, certain resolutions passed by the board of directors of the Issuer prior to the issue of the Preference Shares (the "**Resolutions**") and this Agreement (this Agreement, the Memorandum and Articles of Association and the Resolutions together, the "**Preference Share Documents**"). The Issuer has entered into this Agreement to provide for the payment of such dividends and other distributions on the Preference Shares.

Section 1. Definitions.

Except as otherwise specified herein or as the context may otherwise require, the following terms shall have the respective meanings set forth below for all purposes of this Agreement, and the definitions of such terms are equally applicable both to the singular and plural forms of such terms, and to the masculine, feminine and neuter genders of such terms. All other defined terms used herein and not defined herein shall have the meanings specified in the Indenture.

"Administration Agreement": the Administration Agreement, dated the date hereof, as amended from time to time, between the Issuer and the Administrator.

"Administrator": Deutsche Bank (Cayman) Limited, a licensed trust company incorporated in the Cayman Islands, as Administrator under the Administration Agreement and any of its successors and assigns.

"Agents": The meaning set forth in the preamble of this Agreement.

"Applicable Procedures": The meaning set forth in Section 8(c).

Confidential Treatment Requested GEM7-00001092

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"Articles": The Articles of Association of the Issuer.

"Authorized Representative": Any officer, director, employee, or agent of the Issuer authorized to give instructions and notices on behalf of the Issuer pursuant to Section 3 hereof.

"Business Day": any day that is a "Business Day" as defined in the Indenture, and that is not a day on which commercial banking institutions in the city in which the Paying Agent or the Transfer Agent is located and Cayman Islands and New York are authorized or obligated by law or executive order to be closed.

"Clearance System": The meaning set forth in Section 8(c).

"Depositary": Depository Trust Company, a New York corporation.

"Disqualified Transferee": The meaning set forth in Section 8(h).

"Distributable Profits": With respect to any Distribution Date, the amounts (other than Share Premium) available to pay dividends and any final distributions on the Preference Shares in accordance with Article Eleven of the Indenture and Cayman Islands law on such Distribution Date, as determined by the Issuer.

"Distribution Compliance Period": The period of time ending on the expiration of one year beginning on the later of the Closing Date or on the day on which the offer of the Preference Shares is completed.

"ERISA": The Employee Retirement Income Security Act of 1974, as amended.

"Excess Cash Flows": Excess Interest, Excess Principal Proceeds and the funds disbursed on the Final Maturity Date by the Trustee to the Paying Agent (for the benefit of the Preference Shareholders) pursuant to clause (iv) of Section 11.1(b) of the Indenture.

"Excess Interest": With respect to any Distribution Date beginning with the June 2007 Distribution Date, other than the Redemption Date, the funds disbursed on such Distribution Date by the Trustee to the Paying Agent (for the benefit of the Preference Shareholders) pursuant to clause 21 of Section 11.1(a)(i) of the Indenture.

"Excess Principal Proceeds": With respect to any Distribution Date beginning with the June 2007 Distribution Date, other than the Redemption Date, the funds disbursed on such Distribution Date by the Trustee to the Paying Agent (for the benefit of the Preference Shareholders) pursuant to clause 14 of Section 11.1(a)(ii) of the Indenture.

"Holder" or "Preference Shareholder": The registered holder of any Preference Share as set forth in the Share Register maintained by the Share Registrar. Notwithstanding any notice to the contrary, none of the Issuer, the Paying Agent or the Transfer Agent shall have any obligation to recognize or deal with any Person claiming an interest in the Preference Shares other than such registered holders.

"Indenture": The meaning set forth in the Preliminary Statement hereof.

"Investor Certificate": A letter substantially in the form of **Exhibit B** attached hereto, duly completed as appropriate.

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"Original Purchaser": HBK CDO Trust.

"Paying Agent": Deutsche Bank Trust Company Americas, as the Paying Agent hereunder.

"Preference Share Redemption Price": The price paid to redeem the Preference Shares which is a percentage of the Aggregate Outstanding Amount thereof equal to a fraction the numerator of which is the Available Redemption Amount remaining after giving effect to redemption of the Notes and payment of all fees and expenses of the Issuer in accordance with Section 11.1 of the Indenture and the denominator of which is the Aggregate Outstanding Amount of the Preference Shares to be redeemed.

"Qualified Purchaser": (i) A "qualified purchaser" as defined in the Investment Company Act, (ii) a "knowledgeable employee" with respect to the Issuer within the meaning of Rule 3c-5 under the Investment Company Act or (iii) a company beneficially owned exclusively by one or more "qualified purchasers" and/or "knowledgeable employees" with respect to the Issuer.

"Redemption Date": The latest date of the "Stated Maturity" and Scheduled Preference Share Redemption Date, as such terms are defined in the Indenture.

"Regulation S Global Preference Shares": The meaning set forth in Section 8(a).

"Regulation S Transferor Certificate": A certificate substantially in the form of **Exhibit D** attached hereto, duly completed as appropriate.

"Responsible Officer": With respect to the Paying Agent or the Transfer Agent, as applicable, any officer within the corporate trust department (or any successor group of the Paying Agent or the Transfer Agent, as applicable) including any vice president, director, managing director, associate, assistant vice president, assistant secretary, or any other officer or assistant officer of the Paying Agent or the Transfer Agent, as applicable, customarily performing functions similar to those performed by the Persons who at the time shall be such officers, respectively, or to whom any corporate trust matter is referred within the Corporate Trust Office because of his or her knowledge of, familiarity with the particular subject and having direct responsibility for the administration of this Agreement, and with respect to the Share Registrar, any officer of the Administrator from time to time.

"Restricted Preference Share": The meaning set forth in Section 8(b)(ii).

"Rule 144A Transferor Certificate": A certificate substantially in the form of **Exhibit C** attached hereto, duly completed as appropriate.

"Share Certificate": With respect to any of the Preference Shares, the physical certificate evidencing such Preference Shares, which shall be substantially in the form of **Exhibit A-1 or A-2** attached hereto.

"Share Premium": As of any Distribution Date or the Redemption Date or any other redemption date, an amount equal to (a) the excess of (i) the aggregate proceeds to the Issuer of the offering of Preference Shares by the Issuer, but without taking into account any fees and expenses of the Issuer relating to such offering *over* (ii) the aggregate par value of all Preference Shares issued by the Issuer *minus* (b) the aggregate of any reductions made to such amount on account of distributions previously made from such account to the Holders of Preference Shares by or on behalf of the Issuer prior to such Distribution Date or Redemption Date or any other redemption date, as applicable, or as otherwise

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defined under the laws of the Cayman Islands from time to time in effect, in each case determined by the Issuer.

"Share Register": The meaning set forth in Section 8(a).

"Share Registrar": The meaning set forth in Section 8(a).

"Share Registrar Office": means the principal office of the Share Registrar or such other address as the Share Registrar may designate from time to time by notice to the Paying Agent, the Collateral Manager and the Issuer. The initial Share Registrar Office shall be at P.O. Box 1984 Grand Cayman KY1-1104, Cayman Islands.

"Share Surplus": With respect to any Distribution Date or the Redemption Date or any other redemption date, the sum of the Share Premium and the Distributable Profits for the related Due Period.

"Transfer Agent": Deutsche Bank Trust Company Americas, as the Transfer Agent hereunder.

"Trust Termination Date": The date on which the obligations of the Issuer are terminated as set forth in Section 4.1 of the Indenture.

"U.S. Person": The meaning attributed to such term by Regulation S under the Securities Act.

Section 2. Appointment of Agents.

(a) The Issuer hereby appoints Deutsche Bank Trust Company Americas, to act as the Paying Agent for the Preference Shares upon the terms, and subject to the conditions, set forth herein and in the Articles; provided that all payments with respect to the Preference Shares shall be made by the Paying Agent or an affiliate or agent of such Paying Agent from a location outside the United States. The Issuer may at any time and from time to time vary or terminate the appointment of the Paying Agent or appoint one or more additional Paying Agents; *provided* that at no time may the Issuer appoint a Paying Agent that does not have offices located outside the United States or does not use an affiliate or agent located outside the United States. The Issuer will give prompt written notice to the Trustee of the appointment or termination of the Paying Agent and of the location and any change in the location of the Paying Agent's office or agency. The Paying Agent shall promptly provide notice to the Holders of any such change or variation of which it receives notices.

(b) The Issuer hereby further appoints Deutsche Bank Trust Company Americas, as the Transfer Agent for the Preference Shares upon the terms, and subject to the conditions, set forth herein. The Issuer may at any time and from time to time vary or terminate the appointment of the Transfer Agent or appoint one or more additional Transfer Agents; *provided* that at no time may the Issuer appoint a Transfer Agent that does not have offices located outside the United States or does not use an affiliate or agent located outside the United States. The Issuer will give prompt written notice to the Trustee of the appointment or termination of the Transfer Agent and of the location and any change in the location of the Transfer Agent's office or agency. The Transfer Agent shall promptly provide notice to the Holders of any such change or variation of which it receives notices.

(c) The Issuer hereby further appoints Deutsche Bank (Cayman) Limited, a licensed trust company incorporated in the Cayman Islands, as the Share Registrar for the Preference Shares upon

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the terms, and subject to the conditions, set forth herein. The Issuer may at any time and from time to time vary or terminate the appointment of the Share Registrar. The Issuer will give prompt written notice to the Trustee of the appointment or termination of the Share Registrar and of the location and any change in the location of the Share Registrar Office. The Share Registrar shall promptly provide notice to the Holders of any such change or variation of which it receives notices.

Section 3. Authorized Representatives.

From time to time the Issuer will furnish the Agents with a signature list certifying the incumbency and specimen signatures of the Authorized Representatives. The Agents shall be entitled to conclusively rely on the last such certificate delivered to it for the purposes of determining the identity of Authorized Representatives.

Section 4. Payment of Dividends

(a) On each Distribution Date beginning with the June 2007 Distribution Date, other than the Redemption Date, the Holders of the Preference Shares shall (subject to Section 4(c)) be entitled to receive dividends on the Preference Shares in an amount equal to the amount of Excess Cash Flows for such Distribution Date.

The Paying Agent, on behalf of the Issuer, shall promptly give notice of the amount of all Excess Cash Flows distributed hereunder for the relevant Distribution Date to the Holders of the Preference Shares in accordance with Section 12 and to the Issuer, to the Initial Purchaser and to the Collateral Manager. The Paying Agent shall also make such information available to the Preference Shareholders at the offices of the Paying Agent.

(b) Subject to section 4(c), dividends, if any, will be paid on each Distribution Date other than the Redemption Date to the Persons in whose names the Preference Shares are registered at the close of business on the Record Date for such Distribution Date. Dividends on the Preference Shares shall be paid by the Paying Agent *pro rata* in the proportion that the number of Preference Shares held by a Holder bears to the total number of Preference Shares.

(c) Notwithstanding anything in this Agreement to the contrary, distributions of Excess Cash Flows by way of dividends to the Holders of the Preference Shares on any Distribution Date (other than the Redemption Date) out of amounts on deposit in the Preference Share Payment Account (i) shall be subject to the Issuer being solvent under Cayman Islands law (defined as the Issuer being able to pay its debts as they become due in the ordinary course of business) immediately prior to, and after giving effect to, such payment as determined by the Issuer or the Collateral Manager acting on behalf of the Issuer and (ii) shall be made only to the extent the Issuer has sufficient Share Surplus out of which to make such payment as determined by the Issuer or the Collateral Manager acting on behalf of the Issuer. If the Issuer or the Collateral Manager acting on behalf of the Issuer determines that the conditions set forth in either clause (i) or clause (ii) above are not satisfied with respect to any portion of the Excess Cash Flows payable on such Distribution Date, the Issuer or the Collateral Manager acting on behalf of the Issuer shall instruct the Paying Agent in writing on or before one Business Day prior to such Distribution Date that such portion should not be paid, and the Paying Agent shall not pay the same, to the Holders of the Preference Shares until the first succeeding Distribution Date, or (in the case of any payments which would otherwise be payable on any Redemption Date) until the first succeeding Business Day, upon which the Issuer notifies the Paying Agent in writing that each such condition is satisfied, and the amounts so retained in the Preference Share Payment Account will be held therein until such amounts are paid, subject to the availability of such funds under Cayman Islands law to pay any liability of the Issuer not limited in recourse to the Collateral. To the extent available, distributions shall be made first

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out of Distributable Profits for the current Due Period, then out of Distributable Profits in excess of dividends for the prior Due Periods and then out of Share Premium.

Section 5. Procedures for Payment of Dividends and Redemption Price; Persons Deemed Owners; Withholding.

(a) All payments of dividends on the Preference Shares and the payment of the Preference Share Redemption Price for the Preference Shares will be made in U.S. Dollars, and, in the case of a redemption of the Preference Shares, will be made only upon the surrender of the certificates representing the Preference Shares at the office of the Paying Agent or the office of its agent as specified in a notice to the Holders delivered in accordance with the terms of Section 12 hereof. All of such payments shall be made by U.S. Dollar check drawn by the Paying Agent or, at the option of the relevant Holder, by wire transfer in accordance with this Section 5 (and subject to usual and necessary banking procedures regarding U.S. Dollar denominated accounts), subject in all cases to any tax, fiscal or other laws or regulations applicable in the place of payment. Any Holder desiring to receive a wire-transfer payment shall deliver a written request therefor to the Paying Agent setting forth the numbers of the Preference Shares held by it and for which it desires to receive payment by wire transfer and specifying the banking institution and account number (with any other appropriate information necessary to enable the Paying Agent to transmit such payment and to assure proper credit to such Holder's account) to which such payments are to be transferred and in the absence of any such request, payments shall be made by U.S. Dollar check. A record of each payment made will be maintained by or on behalf of the Paying Agent in accordance with its customary procedures, and such record shall be *prima facie* evidence that the payment in question has been made. The Issuer and the Paying Agent shall be fully protected in relying upon any such request in making payments on the Preference Shares, and any payment transmitted in accordance with such request shall be deemed to have been made upon transmission thereof to the banking institution identified in such request.

(b) Payments with respect to the Preference Shares held by persons to whom the transfers were made in reliance on Rule 144A under the Securities Act may be made, whether pursuant to presentation of a certificate representing the Preference Shares or the making of any other demand for payment, in the United States and (i) if by U.S. Dollar check, by being drawn on a U.S. Dollar account maintained by the Paying Agent or (ii) if by wire transfer, from a U.S. Dollar account maintained by the Paying Agent. Payments with respect to the Preference Shares held by persons to whom the transfers were made in reliance on Regulation S under the Securities Act may be made, whether pursuant to presentation of a certificate representing the Preference Shares or the making of any other demand for payment, (i) if by U.S. Dollar check, by being drawn on a U.S. Dollar account maintained by the Paying Agent and the Paying Agent mailing the same from an address outside the United States or (ii) if by wire transfer, from a U.S. Dollar account maintained by the Paying Agent or an affiliate or agent outside the United States to an account maintained by the Preference Shareholder at a bank outside of the United States.

(c) In the case where the Trust Termination Date or Redemption Date shall not be a Business Day, then payment need not be made on such date, but may be made on the next succeeding Business Day with the same force and effect as if made on the nominal date of any such Trust Termination Date or Redemption Date, as the case may be.

(d) If any amount received by the Issuer is reduced by reason of any amounts being withheld from (i) payments to the Issuer on any of the Collateral Debt Securities included in the Collateral or (ii) payments on the Notes or the Preference Shares, the Issuer shall not be obligated to pay any additional amounts to cause the Holders of the Preference Shares to receive the amount that would have been payable to them had no such withholding been required or made. The Paying Agent shall give

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prompt notice of any such withholding to each Preference Shareholder of which it has actual knowledge. As a condition to the payment of capital and dividends on any Preference Share without the imposition of United States withholding tax, the Issuer shall require that certification acceptable to it be furnished to the Issuer and the Paying Agent in order to enable the Issuer and the Paying Agent to determine their duties and liabilities with respect to any taxes or other charges that they may be required to deduct or withhold from payments in respect of such Preference Share under any present or future law or regulation of 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.

(e) The Issuer and the Agents may deem and treat the registered Holder of any Preference Share as the absolute owner of such Preference Share, notwithstanding any notation of ownership or other writing on any certificate representing such Preference Share, for the purpose of receiving dividends and the Preference Share Redemption Price thereof and for all other purposes, and neither the Issuer nor the Agents shall be affected by any notice to the contrary. All such payments so made to such Holder or upon such Holder's order shall be valid and, to the extent of the sum or sums so paid, effectual to satisfy and discharge the liability for the monies payable upon any such Preference Share.

Section 6. Redemption.

(a) On the Redemption Date, the Preference Shares shall (subject to Section 4(d)) be redeemed in whole at the Preference Share Redemption Price.

(b) All redemption payments shall be made *pro rata* in the proportion that the number of Preference Shares held by a Holder bears to the total number of Preference Shares.

(c) Notwithstanding anything in this Agreement to the contrary, distributions of the Preference Share Redemption Price by way of redemption of the Preference Shares shall be subject to the Issuer being solvent under Cayman Islands law (defined as the Issuer being able to pay its debts as they become due in the ordinary course of business) immediately prior to, and after giving effect to, such payment as determined by the Issuer or the Collateral Manager acting on behalf of the Issuer. For purposes of this subsection (d), a determination as to whether the Issuer is solvent on a Redemption Date shall be made by the Issuer or the Collateral Manager acting on behalf of the Issuer (A) after giving effect to any payments to be made on such Redemption Date and (B) in light of the fact that the other obligations of the Issuer to Noteholders, the other secured parties and persons subject to the Priority of Payments are limited in recourse to the Collateral, and not to (i) amounts in the Preference Share Payment Account or investment earnings of amounts therein, (ii) any other amounts released from the Collateral in accordance with the Indenture and held by or on behalf of the Issuer for the benefit of the Holders of the Preference Shares or (iii) amounts on deposit in the Issuer's bank account in the Cayman Islands, and that after the assets in the Collateral are exhausted, such parties will have no further claim against the Issuer. If the Issuer or the Collateral Manager acting on behalf of the Issuer determines that such condition is not satisfied on a Redemption Date with respect to any portion of the Preference Share Redemption Price, the Issuer shall instruct the Paying Agent in writing that such portion should not be paid, and the Paying Agent shall not pay the same, to the Holders of the Preference Shares until the first succeeding Business Day upon which the Issuer notifies the Paying Agent in writing that each such condition is satisfied, and the amounts so retained in the Preference Share Payment Account will be held therein until such amounts are paid, subject to the availability of such funds under Cayman Islands law to pay any liability of the Issuer not limited in recourse to the Collateral.

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Section 7. Accountings; Reports by Issuer; Information to Holders.

(a) On or prior to each Distribution Date (including the Redemption Date), the Issuer or the Paying Agent, on behalf of the Issuer, shall render an accounting, determined as of the fifth Business Day preceding such Distribution Date and delivered to the Paying Agent, the Collateral Manager and the Initial Purchaser. The Issuer or the Paying Agent, on behalf of the Issuer, shall render such accounting by reference to the accounting delivered by the Issuer pursuant to Section 10.8 of the Indenture. Such accounting shall contain the following information (stated in aggregate):

(i) the amount of Excess Cash Flows to be received by the Paying Agent from the Trustee on the related Distribution Date;

(ii) the amounts payable as dividends on the Preference Shares on such Distribution Date; and

(iii) if such accounting relates to the Redemption Date, the Preference Share Redemption Price payable with respect to the Preference Shares on such Distribution Date.

(b) On or prior to each Distribution Date, the Paying Agent shall provide the Holders of the Preference Shares with a copy of the Note Valuation Report prepared for delivery pursuant to Section 10.8(b) of the Indenture (to the extent requested by each Preference Shareholder), together with the report prepared by the Issuer or the Paying Agent, on behalf of the Issuer, pursuant to Section 7(a) hereof.

Section 8. Share Register; Registration, Transfer, Exchange; Persons Deemed Owners.

(a) The Issuer shall cause to be kept a register (the "**Share Register**") in which, subject to such reasonable regulations as it may prescribe and to the Companies Law (2004 Revision) of the Cayman Islands, the Issuer shall provide for the registration of the Preference Shares (and any other share capital of the Issuer) and the registration of transfers of the Preference Shares (and any other share capital of the Issuer). The Administrator is hereby irrevocably appointed by the Issuer to act as the "**Share Registrar**" for the purpose of registering the Preference Shares (and any other share capital of the Issuer) and all transfers of the Preference Shares (and any other share capital of the Issuer) as herein provided (it being hereby acknowledged that nothing contained herein shall limit, bar or restrict the ability or the right of the Administrator to appoint agents or to delegate duties from time to time). A duplicate copy of the Share Register shall be maintained outside the Cayman Islands by the Transfer Agent.

Preference Shares offered in the United States in reliance on Rule 144A under the Securities Act shall be represented by certificates in fully registered definitive form registered in the name of the legal and beneficial owner thereof and substantially in the form of, and with the applicable legends set forth in, **Exhibit A-1** attached hereto.

Preference Shares sold outside the United States to non-U.S. Persons in reliance on Regulation S shall be represented by one or more global share certificates, in definitive, fully registered form and substantially in the form of, and with the applicable legends set forth in, **Exhibit A-2** attached hereto, (the "**Regulation S Global Preference Shares**") deposited with a custodian for, and registered in the name of, the Depositary (or its nominee) on behalf of Euroclear Bank S.A./N.V., as operator of Euroclear, or Clearstream. Until the end of the Distribution Compliance Period, beneficial interests in such preference shares may be held only through Euroclear or Clearstream. After the Distribution

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Compliance Period, beneficial interests in such Preference Shares may also be held other than through Euroclear or Clearstream via the Depositary's other direct and indirect participants, but still registered in the name of the Depositary (or its nominee). Euroclear or Clearstream will credit the Regulation S Global Preference Share to the respective accounts designated by the owners of such Preference Share at Euroclear or Clearstream. The registered owner of the relevant Regulation S Global Preference Share shall be the only person entitled to receive payments in respect of the Preference Shares represented by a Regulation S Global Preference Share, and the Issuer will be discharged by payment to, or to the order of, the registered owner of such Regulation S Global Preference Share in respect of each amount so paid. No person other than the registered owner of the relevant Regulation S Global Preference Share shall have any claim against the Issuer in respect of any payment due on that Regulation S Global Preference Share.

Owners of beneficial interests in Preference Shares sold outside the United States to non-U.S. Persons in reliance on Regulation S will be entitled or required under certain limited circumstances to receive physical delivery of certificated Preference Shares in fully registered, definitive form.

Every certificate representing a Preference Share presented or surrendered for registration of transfer or exchange shall (if so required by the Issuer, the Transfer Agent or the Share Registrar) be presented or surrendered at the Share Registrar Office or the office of the Transfer Agent and be accompanied by a written instrument of transfer in form satisfactory to the Issuer (including, as applicable, a Rule 144A Transferor Certificate or a Regulation S Transferor Certificate), the Transfer Agent and the Share Registrar duly executed by the Holder thereof or its attorney-in-fact duly authorized in writing. In addition, if the certificates being exchanged or transferred contain a legend, additional certifications to the effect that such exchange or transfer is in compliance with the restrictions contained in such legend, may be required. The Transfer Agent shall promptly notify the Share Registrar and the Paying Agent of any transfer or exchange and provide each of them with copies of the relevant certificate and written instrument of transfer and any other relevant documentation received in conjunction with such transfer or exchange. Following a proper request for transfer or exchange, the Transfer Agent shall promptly instruct the Share Registrar in writing to make the relevant entries in the Share Register (and the Share Registrar shall be entitled to rely on the accuracy and completeness of such instructions received by it from the Transfer Agent). With respect to any transfer of a portion of the Preference Shares represented by such certificate, the transferor will be entitled to receive, at any aforesaid office, new certificates representing the principal amount retained by the transferor after giving effect to such transfer. New certificates issued upon any such exchange or transfer (whether in whole or in part) will be made available at the office of the Transfer Agent.

The Share Registrar shall (upon receipt of the relevant information) cause to be entered in the Share Register and the Transfer Agent shall cause to be entered in its duplicate Share Register the following particulars: (i) the name and address of each Holder of Preference Shares, a statement of the number of Preference Shares held by him and the amount paid or agreed to be considered as paid on such preference shares; (ii) the date on which each person was entered on the Share Register as a Holder of Preference Shares; and (iii) the date on which any person ceased to be a Holder of Preference Shares.

No service charge shall be made to a Holder for any registration of transfer or exchange of any Preference Shares, but the Share Registrar and/or the Transfer Agent may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any registration of transfer or exchange of Preference Shares and expenses of delivery (if any) not made by regular mail.

(b) No Preference Shares may be sold or transferred (including, without limitation, by pledge or hypothecation) unless such sale or transfer (i) is in minimum lots of 200 shares and integral multiples of 1 share in excess thereof and after giving effect to any sale or transfer, the transferor thereof

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shall have retained an aggregate number of Preference Shares that is either (a) equal to zero or (b) equal to or greater than the minimum lot of 200 shares and integral multiples of 1 share in excess thereof and (ii) is exempt from the registration requirements of the Securities Act and is exempt from registration under applicable state securities laws. No purported transfer of any interest in any Preference Share or any portion thereof that is not made in accordance with this Section 8 shall be given effect by or be binding upon the Transfer Agent, the Share Registrar or the Issuer, and any such purported transfer shall be null and void *ab initio* and vest in the transferee no rights against the Transfer Agent, the Share Registrar or the Issuer.

A Preference Shareholder may transfer a Preference Share or its beneficial interest in a Preference Share only in accordance with the following provisions:

(i) The Holder of a Preference Share sold to an initial Holder who is a non-U.S. Person pursuant to Regulation S under the Securities Act may transfer such Preference Share in accordance with the Applicable Procedures only to (1) a non-U.S. Person in an offshore transaction (within the meaning of Regulation S) in accordance with Rule 904 of Regulation S or (2) to a person who agrees to receive a Restricted Preference Share (as such term is defined in paragraph (ii) below) and who certifies that it is a "qualified institutional buyer" within the meaning of Rule 144A under the Securities Act and agrees to resell such Preference Share only in accordance with the provisions of Regulation S, pursuant to registration under the Securities Act, or pursuant to an available exemption from registration under the Securities Act and agrees not to engage in hedging transactions with regard to such securities unless in compliance with the Securities Act.

(ii) A Holder of a Preference Share (a "**Restricted Preference Share**") that was sold to an initial Holder who is a U.S. Person may at any time transfer its interest in such Preference Share only to (A) a non-U.S. Person in an offshore transaction (within the meaning of Regulation S) in accordance with Rule 904 of Regulation S or (B) a "qualified institutional buyer" within the meaning of Rule 144A under the Securities Act, in transactions not requiring registration under the Securities Act and, in each case, in accordance with the certifications requirements required herein.

(iii) The Transfer Agent shall require, prior to any such transfer of a Preference Share, receipt by the Transfer Agent and the Issuer of (A) an Investor Certificate from such Preference Shareholder's transferee and (B) as applicable, a Regulation S Transferor Certificate or a Rule 144A Transferor Certificate from such Holder, in each case certifying to the foregoing and the other matters covered by the forms of such certificates prescribed by this Agreement. Upon receipt of the Investor Certificate and the relevant Transferor Certificate, and the surrender to the Transfer Agent of the Share Certificate to be so transferred, the Transfer Agent shall cancel such Share Certificate, and the Issuer shall execute and provide to the Transfer Agent, and the Transfer Agent shall deliver, a Share Certificate representing the Preference Shares intended to be transferred to such transferee (and, in the event of a partial transfer, the Issuer shall execute and provide to the Transfer Agent, and the Transfer Agent shall deliver, a Share Certificate representing the remaining balance to the transferring Holder) in accordance with Section 8(a).

(iv) Notwithstanding the foregoing, where the transfers of the Preference Shares are by way of transfers of beneficial interests in the Regulation S Global Preference Shares, such transfers may be made by book-entry transfer of beneficial interests in the Regulation S Global Preference Shares (and if within the Distribution Compliance Period, within Euroclear or Clearstream, to non-U.S. Persons in accordance with Regulation S) in accordance with the Applicable Procedures without the provision of any certification. Each subsequent transferee

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shall be deemed to have made the applicable representations set forth in the form of the Investor Certificate.

The Investor Certificate and any Rule 144A Transferor Certificate or Regulation S Transferor Certificate furnished, as required, pursuant to this Section 8(b) may be relied on conclusively by the Share Registrar and Transfer Agent in determining whether the provisions of this Section 8(b) have been complied with. None of the Issuer, the Transfer Agent, the Share Registrar or any other Person shall be required to register the Preference Shares under the Securities Act or any state securities laws.

(c) The applicable procedures (collectively, "**Applicable Procedures**") utilized or imposed from time to time by the Depositary, Euroclear or Clearstream (collectively, the "**Clearance System**") shall be applicable to the Regulation S Global Preference Shares insofar as and to the extent beneficial interests in such Regulation S Global Preference Shares are held by the agent members of or participants in the applicable Clearance System. Account holders or agent members of or participants in the applicable Clearance System shall have no rights under this Agreement with respect to such Regulation S Global Preference Shares, and the Depositary as registered Holder of the Regulation S Global Preference Shares may be treated by the Issuer or the Agents as the owner of such Regulation S Global Preference Shares for all purposes whatsoever. Notwithstanding the foregoing, nothing herein shall prevent the Issuer, the Agents from giving effect to any written certification, proxy or other authorization furnished by the applicable Clearance System or impair, as among the applicable Clearance System and its agent members or participants, the operation of customary practices governing the exercise of the rights of a Holder of any Regulation S Global Preference Shares. Requests or directions from, or votes of the applicable Clearance System with respect to any matter shall not be deemed inconsistent if made with respect to (or in separate proportions corresponding to) different beneficial owners. None of the Agents shall have any duty to monitor, maintain records concerning (or determine compliance with any of the restrictions on transfer set forth herein with respect to) owners of beneficial interest in the Regulation S Global Preference Shares. None of the Agents shall have any liability for the accuracy, completeness or validity of the records of the applicable Clearance System, or any actions or omissions of the applicable Clearance System (or of the agent members of or participants in the applicable Clearance System).

(d) No Preference Share may be purchased or transferred to, on behalf of or using the assets of (i) an employee benefit plan subject to Title I of ERISA or a plan subject to Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the "Code") (each such plan, an "ERISA Plan"); (ii) a collective investment fund, separate account or other entity whose underlying assets are treated as "Plan Assets" of an ERISA Plan under U.S. Department of Labor regulation Section 2510.3-101, as modified by section 3(42) of ERISA (a "**Benefit Plan Investor**"); or (iii) a person acting on behalf of an ERISA Plan.

By its purchase of the Preference Shares, each purchaser and transferee will be required to represent and warrant to and agree with the Issuer, the Collateral Manager and the Agents that (A) its purchase and holding of such Preference Shares will satisfy the ERISA requirements described above and (B) it will not assign or transfer such Preference Shares unless the proposed assignee or transferee delivers a letter to the Issuer evidencing its agreement to the foregoing ERISA representations and covenants with respect to its purchase, holding and transfer of such Preference Shares.

(e) No Preference Share shall be sold or transferred (including, without limitation, by pledge or hypothecation) to a U.S. resident (within the meaning of the Investment Company Act) unless such purchaser or transferee is a Qualified Purchaser. The Transfer Agent and the Share Registrar may rely on the statement in any Investor Certificate, and shall be entitled to rely on the continuing accuracy thereof from time to time (unless and until a Responsible Officer is otherwise notified in writing by the signatory thereto or by the Issuer) in determining whether the provisions of this Section 8(e) have

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been complied with. Notwithstanding anything to the contrary in this Agreement, no transfer of a Preference Share may be made if the Transfer Agent has written notice or actual knowledge that such transfer would require registration of the Issuer or the Co-Issuer under the Investment Company Act (subject, with respect to the Transfer Agent's duties, to Section 8(f) below).

(f) At any time when the Issuer is not subject to Section 13 or 15(d) of the United States Securities Exchange Act of 1934, as amended, upon the request of any Preference Shareholder, the Issuer shall promptly furnish, and shall cause the Collateral Manager to promptly furnish, to such Preference Shareholder or to a prospective purchaser of any Preference Share designated by such Preference Shareholder, as the case may be, the information which the Issuer determines to be required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act ("**Rule 144A Information**") in order to permit compliance by such Preference Shareholder with Rule 144A in connection with the resale of such Preference Share by such Preference Shareholder. Upon written request by the Issuer, the Transfer Agent shall cooperate with the Issuer in mailing or otherwise distributing (at the Issuer's expense) to such Preference Shareholders or prospective purchasers, at and pursuant to the Issuer's written direction, any Rule 144A Information prepared and provided by the Issuer, *provided* that the Transfer Agent shall be entitled to affix thereto or enclose therewith such disclaimers as the Transfer Agent shall deem reasonably appropriate, at its discretion (such as, for example, a disclaimer that such Rule 144A Information was assembled by the Issuer, and not by the Transfer Agent, that the Transfer Agent has not reviewed or verified the accuracy thereof, and that it makes no representation as to the sufficiency of such information under Rule 144A or for any other purpose).

(g) The Transfer Agent and the Share Registrar shall not be responsible for ascertaining whether any transfer of the Preference Shares complies with, or otherwise for monitoring or determining compliance with, the requirements or terms of the Securities Act, applicable state securities laws, ERISA, the Code or the Investment Company Act; except that if a certificate is specifically required by the terms of this Section 8 to be provided to the Transfer Agent by a transferee of the Preference Shares, a transferor of the Preference Shares, or the Issuer, the Transfer Agent shall be under a duty to receive and examine the same to determine whether it conforms substantially on its face to the applicable requirements of this Section 8.

(h) If a Responsible Officer of the Transfer Agent has actual knowledge that (i) a transfer or attempted or purported transfer of any of the Preference Shares or any interest therein was consummated in compliance with the provisions of this Section 8 on the basis of a materially incorrect certification from the transferor or purported transferee that has not been cured within a reasonable period of time after notice thereof, (ii) a transferee failed to deliver within a reasonable period of time (including any applicable period provided to cure such failure to deliver) to the Transfer Agent any certificate required to be delivered hereunder, or (iii) the Holder of any Preference Share or interest therein is in material breach of any representation or agreement set forth in any certificate or any deemed representation or agreement of such Holder, then the Transfer Agent or the Share Registrar nor the Paying Agent will not register such attempted or purported transfer, and, if a transfer has been registered, such transfer shall be absolutely null and void *ab initio* and shall vest no rights in the purported transferee (such purported transferee, a "**Disqualified Transferee**"), and the last preceding Holder of such Preference Share that was not a Disqualified Transferee shall be restored to all rights as a Holder thereof retroactively to the date of transfer of such Preference Share by such Holder.

(i) If, notwithstanding the restrictions on transfer contained herein and/or in the Articles, the Issuer determines that any beneficial owner of Preference Shares offered in the United States in reliance on Rule 144A under the Securities Act (A) is a U.S. Person and (B) is not both (i)(a) a Qualified Institutional Buyer within the meaning of Rule 144A under the Securities Act or (b), in respect of the Original Purchaser, an institutional "accredited investor" within the meaning of Rule 501(a)(1), (2),

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(3) or (7) 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 Preference Shares to a Person that is both (i) a Qualified Institutional Buyer and (ii) a Qualified Purchaser, with such sale to be effected within 30 days after notice of such sale requirement is given. If such beneficial owner fails to effect the transfer required within such 30-day period, (i) upon direction from the Collateral Manager or the Issuer, the Share Registrar, on behalf of and at the expense of the Issuer, shall cause such beneficial owner's interest in such Preference Share to be transferred in a commercially reasonable sale (conducted by an investment banker selected by the 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 the Share Registrar, the Issuer and the Collateral Manager, in connection with such transfer, that such person is both (a) a Qualified Institutional Buyer and (b) a Qualified Purchaser and (ii) pending such transfer, no further payments will be made in respect of such Preference Shares held by such beneficial owner.

Section 9. Liability.

None of the Agents or directors, officers, employees or agents of any of them shall be liable for any act or omission hereunder except in the case of criminal conduct, fraud, gross negligence, bad faith, or willful misconduct of the applicable Agent, as the case may be, in violation of its duties under this Agreement. The duties and obligations of the Agents and the employees or agents shall be determined solely by the express provisions of this Agreement, and they shall not be liable except for the performance of such duties and obligations as are specifically set forth herein, and no implied covenants or obligations shall be read into this Agreement against them. The Agents may consult with counsel and shall be fully protected in any action reasonably taken or omitted to be taken in good faith, in reliance upon and in accordance with the advice of such counsel. In particular, neither the Issuer nor the Agents will have any responsibility or liability for the performance by the Depositary, Clearstream or Euroclear or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

In the absence of criminal conduct, fraud, gross negligence and willful misconduct on its part, each of the Agents may rely conclusively and shall be fully protected in acting or refraining from acting on any notice, certificate or other document furnished to it hereunder and reasonably believed by it in good faith to be genuine. No Agent shall be liable for any action taken by it in good faith and reasonably believed by it to be within the discretion or powers conferred upon it, or taken by it pursuant to any direction or instruction by which it is governed hereunder, or omitted to be taken by it by reason of the lack of direction or instruction required hereby for such action. The Agents shall in no event be liable for the application or misapplication of funds by any other Person, or for the acts or omissions of any other Person. The Paying Agent and the Transfer Agent shall not be bound to make any investigation into the facts or matters stated in any certificate, report or other document; *provided* that, if the form thereof is prescribed by this Agreement, the Paying Agent and the Transfer Agent, as the case may be, shall examine the same to determine whether it conforms on its face to the requirements hereof. Each of the Agents may exercise or carry out any of its duties under this Agreement either directly or indirectly through agents, nominees, custodians or attorneys, and none of the Agents shall be responsible for any acts or omissions on the part of any such agent, nominee, custodian or attorney appointed with due care; *provided* that no such delegation to any agent, nominee, custodian or attorney shall relieve such Agent of any of its duties or responsibilities under this Agreement. To the extent permitted by applicable law, no Agent shall be required to give any bond or surety in the execution of its duties. No Agent shall be deemed to have knowledge or notice of any matter unless actually known to an officer of the relevant Agent, as applicable, or unless the Paying Agent or the Transfer Agent, as applicable, has received written notice thereof from the Issuer, the Collateral Manager, the Trustee, or the Holder of a Preference Share.

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In the absence of criminal conduct, fraud, gross negligence, bad faith and willful misconduct on the part of any Agent, such Agent may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any certificates or opinions furnished to such Agent which conform on their face to the requirements of this Agreement.

None of the Agents shall be liable for any error of judgment made in good faith by an officer or officers of such Agent, unless it shall be conclusively determined by a court of competent jurisdiction that the Agent was grossly negligent or acted with criminal conduct, fraud, bad faith or willful misconduct in ascertaining the pertinent facts.

None of the provisions of this Agreement shall require any Agent to expend or risk its own funds or otherwise to incur any liability, financial or otherwise, in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers if it shall have reasonable grounds for believing that repayment of such funds or indemnity satisfactory to it against such risk or liability is not assured to it; unless such risk or liability relates to the performance of its ordinary services hereunder.

Whenever in the administration of the provisions of this Agreement an Agent shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action to be taken hereunder, such Agent (unless other evidence in respect thereof be herein specifically prescribed) may, in the absence of criminal conduct, fraud, gross negligence, bad faith and willful misconduct on the part of such Agent, rely on a certificate signed by an officer of the Issuer and delivered to such Agent and such certificate, in the absence of criminal conduct, fraud, gross negligence, bad faith and willful misconduct on the part of the Agent, shall be full warrant to such Agent for any action taken, suffered or omitted by it under the provisions of this Agreement upon the faith thereof.

Section 10. Indemnification.

The Issuer agrees to indemnify and hold harmless the Agents, and their respective directors, officers, employees, and agents from and against any and all liabilities, costs and expenses (including reasonable legal fees and expenses) directly or indirectly relating to or arising out of or in connection with its or their performance under this Agreement, except to the extent that they are caused by the criminal conduct, fraud, gross negligence, bad faith, or willful misconduct of the applicable Agent, as the case may be. The foregoing indemnity includes, but is not limited to, any action taken or omitted in good faith within the scope of this Agreement upon telephone, telecopier or other electronically transmitted instructions, if authorized herein, received from or reasonably believed by the applicable Agent, as the case may be, acting in good faith, to have been given by, an Authorized Representative. This indemnity shall survive the resignation or removal of any Agents and the satisfaction or termination of this Agreement.

Section 11. Compensation of the Agents.

(a) Pursuant to, and at the times and to the extent contemplated by the Indenture, the Trustee shall forward to the Paying Agent and the Transfer Agent compensation at such amounts and/or rates as shall be agreed between the Issuer and, as applicable, the Paying Agent and the Transfer Agent in writing and from time to time shall reimburse the Paying Agent and the Transfer Agent for their respective reasonable out-of-pocket expenses (including reasonable legal fees and expenses), disbursements, and advances incurred or made in accordance with any provisions of this Agreement, except any such expense, disbursement, or advance that may be attributable to its gross negligence, bad faith or willful misconduct. The obligations of the Trustee to the Paying Agent and the Transfer Agent pursuant to the Indenture and this Section shall survive the resignation or removal of the Trustee and the satisfaction or termination of this Agreement. Notwithstanding any provision of this Agreement to the

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contrary, to the extent any amounts owing to the Paying Agent and Transfer Agent from time to time pursuant to this Section 11 remain unpaid, the Paying Agent and the Transfer Agent shall be entitled to pay to itself, for application to such unpaid amounts, any funds held or received by it at any time or times under or pursuant to this Agreement prior to making payment of amounts otherwise required under this Agreement to be made to the Preference Shareholders (or any other Persons).

(b) Pursuant to, and at the times and to the extent contemplated by the Indenture, the Trustee shall forward to the Share Registrar compensation at such amounts and/or rates as shall be agreed between the Issuer and the Share Registrar in writing.

Section 12. Notices.

(a) All communications by or on behalf of the Issuer relating to the transfer, exchange, or payment of a Preference Share or any interest therein shall be directed to the Paying Agent, the Transfer Agent and the Share Registrar at its address set forth in subsection (c) hereof.

(b) The Paying Agent shall promptly notify the Preference Shareholders of the occurrence of an Event of Default under the Indenture of which it receives written notice from the Trustee.

Where this Agreement provides for notice to Preference Shareholders of any event, such notice shall be sufficiently given (unless otherwise herein expressly provided) if such notice is in writing and mailed, first-class postage prepaid or overnight delivery, or sent via facsimile or e-mail to each Preference Shareholder affected by such event, at such Preference Shareholder's address as it appears on the Share Register, in the case of (a) or (b) not later than the latest date, and not earlier than the earliest date, prescribed for the giving of such notice. All such notices shall be mailed or transmitted from outside the United States.

Neither the failure to mail or transmit such notice, nor any defect in any notice so mailed or transmitted, to any particular Preference Shareholder shall affect the sufficiency of such notice with respect to other Preference Shareholders. Any notice that is given in the manner herein provided shall be presumed to have been duly given whether or not actually received by such Preference Shareholder. Any notice to Preference Shareholders provided for in this Agreement will be deemed to have been given on the date of mailing or transmission.

Where this Agreement provides for notice in any manner, such notice may be waived in writing by any Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Preference Shareholders shall be filed with the Paying Agent but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

In the event that, by reason of the suspension of the regular mail service as a result of a strike, work stoppage or similar activity, it shall be impractical to mail notice of any event to Preference Shareholders when such notice is required to be given pursuant to any provision of this Agreement, then any manner of giving such notice as shall be satisfactory to the Paying Agent shall be deemed to be a sufficient giving of such notice.

(c) Notices and other communications hereunder shall (except to the extent otherwise expressly provided) be in writing and shall be addressed as follows, or to such other addresses as the parties hereto shall specify from time to time:

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(i) if to the Issuer:

Gemstone CDO VII Ltd.
c/o Deutsche Bank (Cayman) Limited,
P.O. Box 1984
Grand Cayman KY1-1104,
Cayman Islands
Facsimile: (345) 949 8244
Telephone: (345) 949 5223
Attention: Directors

(ii) if to the Share Registrar:

Deutsche Bank (Cayman) Limited,
P.O. Box 1984
Grand Cayman KY1-1104,
Cayman Islands
Facsimile: (345) 949 8244
Telephone: (345) 949 5223
Attention: Directors

(iii) if to the Paying Agent or to the Transfer Agent:

Deutsche Bank Trust Company Americas
1761 East St. Andrew Place
Santa Ana, California 92705
Attn: CDO Business Unit - Gemstone VI
Telephone: (714) 247-6000
Telefax: (714) 247-6483

(iv) if to the Collateral Manager:

HBK Investments L.P.
300 Crescent Court Suite 700
Dallas, Texas 75201
Attention: Legal Department
Telephone: (214) 758-1207
Telefax: (214) 758-6107

Section 13. Resignation or Removal of Agent and Appointment of Successor Agent; Merger, Conversion and Consolidation.

(a) The Issuer agrees, for the benefit of the Holders of the Preference Shares, that there shall at all times be a Paying Agent, a Transfer Agent and a Share Registrar hereunder which shall be a company authorized to engage in the activities set forth in this Agreement, subject to supervision or examination by governmental authorities, until all the Preference Shares shall have been redeemed; *provided* that (i) the Paying Agent, the Transfer Agent or the Share Registrar shall act through an affiliate or agent located outside the United States, except to the extent otherwise expressly provided in, or permitted by, this Agreement; (ii) neither the Paying Agent nor the Transfer Agent nor the Share Registrar will be regarded as acting through an office in the United States by reason of engaging the

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Trustee or the Collateral Manager for consultation, advice, information or recommendations regarding, or utilizing the services of the Trustee to review, or to prepare and provide drafts of, or otherwise to perform ministerial or advisory services concerning, any notices, reports, and other documents to be rendered, maintained or reviewed by the Paying Agent, the Transfer Agent or the Share Registrar under the terms of this Agreement (including without limitation shareholder accounting and reports), and concerning any other duties or services to be performed by the Paying Agent, the Transfer Agent or the Share Registrar under the terms of this Agreement (including without limitation matters pertaining to the transfer, exchange and replacement of Preference Shares, calculation, allocation, distribution and withholding of payments), and (iii) notwithstanding the preceding *proviso*, the following shall, if and to the extent required by this Agreement to be performed by the Paying Agent, the Transfer Agent or the Share Registrar, be performed or carried out by the Paying Agent, the Transfer Agent or the Share Registrar and not by the Trustee acting for the Paying Agent, the Transfer Agent or the Share Registrar: (A) communicating (including the furnishing of financial reports) with Preference Shareholders concerning the Preference Shares or the Issuer, (B) communicating with the general public concerning the Preference Shares or the Issuer, (C) effecting any exchange of Preference Shares (except that the Paying Agent shall be permitted to consult with the Trustee and call upon the Trustee to review and advise with respect to the form of Preference Shares and compliance with the requirements for transfer, including review of required transfer documentation), (D) accepting subscriptions of Preference Shareholders, (E) maintaining principal corporate records or books of account of the Issuer, (F) auditing books of account of the Issuer, (G) disbursing payments to Preference Shareholders of the Issuer or other payments relating to the Issuer, (H) publishing or furnishing the offering and the Preference Share Redemption Price of Preference Shares, (I) conducting meetings of Preference Shareholders, or (J) effecting, mailing or publishing notice of the redemption of the Preference Shares, receiving presentment of such Preference Shares therefor or disbursing payments of the Preference Share Redemption Price to Preference Shareholders in connection therewith, or making registration or exchanges of the Preference Shares (*provided further* that nothing in this proviso shall be construed as implying that the Paying Agent, the Transfer Agent or the Share Registrar has any such duties set forth in (A) through (J)).

(b) Each Agent may at any time resign as such agent by giving written notice to the Issuer, the Collateral Manager and the Preference Shareholders of such intention on its part, specifying the date on which its desired resignation shall become effective; *provided* that such date shall be not less than 45 days after the giving of such notice by the Paying Agent, the Transfer Agent or the Share Registrar to the Issuer. The Paying Agent, the Transfer Agent or the Share Registrar may be removed at any time by the Issuer or by a Majority-in-Interest of Preference Shareholders by the filing with it of an instrument in writing signed by an Authorized Representative of the Issuer acting on behalf of the Issuer or at the direction of a Majority-in-Interest of Preference Shareholders and specifying such removal and the date, which shall be at least 45 days after the date of such written notice, upon which it is intended to become effective. Any such resignation or removal shall take effect on the date of the appointment by the Issuer, acting on its own behalf or at the direction of a Majority-in-Interest of Preference Shareholders, of a successor paying agent or transfer agent and the acceptance of such appointment by such successor paying agent or transfer agent that qualifies as such under clause (a) of this Section. In the event of resignation by the Paying Agent, the Transfer Agent or the Share Registrar, if a successor agent has not been appointed by the Issuer within 90 days after the giving of notice by or to the Paying Agent, the Transfer Agent or the Share Registrar, the Paying Agent, the Transfer Agent or the Share Registrar, as applicable, may, at the expense of the Issuer, petition any court of competent jurisdiction for appointment of a successor Paying Agent, the Transfer Agent or the Share Registrar *provided* that it shall be qualified under clause (a) of this Section. Upon any such resignation or removal and upon payment of all monies due and payable to the Paying Agent or Transfer Agent, the Paying Agent or the Transfer Agent or the Share Registrar shall transfer to the successor Paying Agent, the Transfer Agent or the Share Registrar (or, if none shall have been appointed, to the Issuer) all monies held by the Paying Agent or the Transfer Agent on behalf of the Issuer in respect of any Preference Shares and all books and records related to

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Preference Shares maintained by the Paying Agent, the Transfer Agent or the Share Registrar, including a copy of the Share Register.

(c) Any corporation or bank into which any Agent hereunder may be merged or converted, or any corporation or bank with which such Agent may be consolidated, or any corporation or bank resulting from any merger, conversion or consolidation to which such Agent shall be a party, or any corporation or bank to which such Agent shall sell or otherwise transfer all or substantially all of the assets and business of such Agent, *provided* that it shall be qualified under clause (a) of this Section, shall be the successor Agent, as applicable, under this Agreement, without the execution or filing of any paper or any further act on the part of any of the parties hereto.

(d) The successor Agent, as applicable, shall give prompt notice of the resignation and removal of the Paying Agent, the Transfer Agent or the Share Registrar, as applicable, and the appointment of a successor Agent, as applicable, by notifying the Holders of the Preference Shares in accordance with Section 12 hereof. Each notice shall include the name of the successor Agent and the address of the office from which this Agreement shall be administered.

Section 14. Benefit of Agreement.

This Agreement is solely for the benefit of the parties hereto, the Holders of the Preference Shares and their respective successors and assigns, and nothing herein, express or implied, shall give to any other Persons any benefits or any legal or equitable right, remedy or claim under or by virtue of this Agreement. No party hereto may assign any of its rights or obligations hereunder except with the prior written consent of all the parties hereto.

Section 15. Preference Shares Held by the Agents; Other Business Relations.

Each Agent, in its individual or other capacity, may become the owner or pledgee of the Preference Shares with the same rights it would have if it were not acting as paying agent, transfer agent or share registrar, as applicable, hereunder. Each Agent may conduct other business with the Issuer from time to time (including but not limited to its appointment and service as Principal Paying Agent under the Indenture in the case of Deutsche Bank Trust Company Americas and as Administrator in the case of Deutsche Bank (Cayman) Limited.)

Section 16. Amendment.

This Agreement may not be amended by any party hereto except in writing executed by each party hereto (with the prior written approval of the holders of a Majority-in-Interest of Preference Shareholders). The Issuer shall provide prompt written notice to the Rating Agency if this Agreement shall be amended or otherwise modified.

Section 17. Governing Law and Submission to Jurisdiction.

This Agreement is to be delivered and performed in, and shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the laws of the State of New York. The Issuer hereby agree that any judicial proceedings instituted by any of the Paying Agent, the Transfer Agent and/or the Share Registrar in relation to any matter arising under this Agreement or the Preference Shares may be brought in any court having subject matter jurisdiction in the State of New York (including, without limitation, federal courts located in the State of New York); irrevocably accepts generally and unconditionally the jurisdiction of such courts, acknowledge their competence and irrevocably agree to be bound by any judgment rendered in such proceeding; and irrevocably designates

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and appoints CT Corporation System, 111 Eighth Avenue, 13th Floor, New York, New York 10011 as the agent of the Issuer to receive on its behalf service of all process brought against the Issuer with respect to any such proceeding in any such court in the State of New York, such service being hereby acknowledged by the Issuer to be effective and binding on it in every respect. If for any reason such agent shall cease to be available to act as such, then the Issuer shall designate a new agent in the City of New York. Any party serving such process on such process agent shall also send a copy of such process to the Issuer at its registered address, but the failure to do so shall not affect the validity of service on the process agent. Nothing contained herein shall in any way inhibit the ability of any of the Paying Agent, the Transfer Agent and/or the Share Registrar to serve process in any other manner or bring actions or proceedings in such other jurisdictions and in such manner as may be permitted by applicable law.

EACH PARTY HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 18. Counterparts.

This Agreement may be executed by the parties hereto in any number of counterparts, and by each of the parties hereto in separate counterparts, and each such counterpart, when so executed and delivered, shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument. Delivery of an executed signature page hereto by facsimile or other electronic means shall be equally effective as delivery of an original signature page.

Section 19. Exhibits.

The exhibits to this Agreement are hereby incorporated and made a part hereof and are an integral part of this Agreement.

Section 20. No Petition.

The Paying Agent, the Transfer Agent and the Share Registrar, by entering into this Agreement, each hereby covenant and agree that it will not at any time institute against the Issuer or the Co-Issuer, or voluntarily join in any institution against the Issuer or the Co-Issuer of, any bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings, or other proceedings under any United States federal or state bankruptcy or similar law of any jurisdiction within or without the United States in connection with any obligations relating to the Preference Shares or this Agreement for a period of one-year and one-day or, if longer, the preference period then in effect following the Trust Termination Date; *provided, however*, nothing herein shall prohibit the filing of proofs of claim in connection with any such proceeding. The parties hereto agree that they will not amend, modify or waive the provisions of this Section 20 without the prior consent of the Rating Agencies.

Section 21. Prescription.

Dividends and the Preference Share Redemption Price payable with respect to the Preference Shares will cease to be payable by the Issuer if such non payment is due to insufficient instructions (or in the case of the Preference Share Redemption Price, if the share certificates with respect to the Preference Shares are not presented for payment also) within ten years from the Relevant Date therefor. "**Relevant Date**" means the date on which the final payment in respect of the Preference Shares first becomes due, except that if the full amount of the monies payable has not been duly received by the Paying Agent on or prior to such due date, it means the date on which such monies have been so received.

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Section 22. Identification of Preference Shareholders.

On demand of the Issuer, a Holder of a Preference Share will notify the Issuer and the Paying Agent whether or not the Preference Share is held by a U.S. Person and the name and status of the Holder as an individual, partnership, corporation, or other entity and such other information the Issuer shall reasonably request for purposes of tax reporting of the Issuer or other Preference Shareholders.

Section 23. QEF Election.

(a) If required to prevent the withholding and imposition of United States income tax, the Issuer shall deliver or cause to be delivered a United States Internal Revenue Service Form W-8 to each withholding agent related to an Collateral Debt Security and each issuer of an Eligible Investment included in the Collateral at the time such Collateral Debt Security or Eligible Investment is purchased by the Issuer and annually thereafter and as otherwise required by applicable U.S Treasury Regulations.

(b) The Issuer will take all actions necessary in order to permit any holder of equity in the Issuer, or any Holder of a Preference Share, or any holder of a Note that is or may be characterized as an equity interest in the Issuer for U.S. federal income tax purposes to make a "qualified electing fund" election for U.S. federal income tax purposes, including causing any such Person to be provided annually a timely and complete "PFIC Annual Statement" as described in U.S. Treasury Regulation Section 1.1295-1(g) or any successor thereto, as well as supplying any additional information which such Person may reasonably request and which is in the possession of the Issuer.

Section 24. Performance of Functions Outside the United States.

The Paying Agent shall perform its functions through an agent or affiliate outside the United States.

Section 25. Survival of Provisions.

Notwithstanding the satisfaction and discharge of this Agreement, the rights and obligations of the Issuer, the Paying Agent, the Share Registrar and the Preference Shareholders under Sections 13, 20, 22, 23 and 26 shall otherwise survive termination of the rights of the parties hereunder.

Section 26. Limited Recourse

Notwithstanding any other provision of this Agreement, the Paying Agent, the Share Registrar and the Transfer Agent acknowledge that the obligations of the Issuer under this Agreement will be nonrecourse obligations of the Issuer payable solely from the Collateral in accordance with the Priority of Payments. Neither the Issuer nor its Affiliates, nor any of its respective agents, partners, beneficiaries, officers, directors, employees or successors or assigns shall be personally liable for any amounts payable, or performance due, under this Agreement. Following realization of the Collateral and its application in accordance with the Indenture, any outstanding obligations of the Issuer hereunder shall be extinguished and shall not thereafter revive. The parties hereto agree that they will not amend, modify or waive the provisions of this Section 26 without the prior consent of the Rating Agencies.

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IN WITNESS WHEREOF, the parties hereto have executed this Preference Share Paying Agency Agreement as of the day and year first above written.

GEMSTONE CDO VII LTD.

By: _____
Name: Alan Corkish
Title: Director

DEUTSCHE BANK TRUST COMPANY AMERICAS,
not in its individual capacity but solely as Paying Agent and Transfer Agent

By: _____
Name:
Title:

By: _____
Name:
Title:

DEUTSCHE BANK (CAYMAN) LIMITED,
as Share Registrar

By: _____
Name: GLEN FINEAU / KESTONE BORDEN
Title: Authorised Signatories

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IN WITNESS WHEREOF, the parties hereto have executed this Preference Share Paying Agency Agreement as of the day and year first above written.

GEMSTONE CDO VII LTD.

By: _____
Name:
Title:

DEUTSCHE BANK TRUST COMPANY AMERICAS,
not in its individual capacity but solely as Paying Agent and Transfer Agent

By: _____
Name:
Title: Susan Anderson
Assistant Vice President

By: _____
Name: Kathleen Gannaway
Title: Assistant Vice President

DEUTSCHE BANK (CAYMAN) LIMITED,
as Share Registrar

By: _____
Name:
Title:

Confidential Treatment Requested

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Exhibit A-1

FORM OF SHARE CERTIFICATE

GEMSTONE CDO VII LTD.

Number	Preference Shares	CUSIP
-[ ]-	-[ ]-	[ ]

Incorporated under the laws of the Cayman Islands
US $845.00 Capital divided into 250 Ordinary Shares
of a nominal par value of US $1.00 per share and
59,500 Preference Shares of a par value of US $0.01 per share

THIS IS TO CERTIFY THAT

-[]-

is the registered holder of

-[ ] Preference Shares-

in the above-named Company subject to the Memorandum and Articles of Association thereof.

ISSUED BY the said Company on this March 15, 2007.

EXECUTED on behalf of the said Company by:

ATTORNEY _____

THE PREFERENCE SHARES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION, AND MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (A)(1) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT ("**RULE 144A**"), PURCHASING FOR ITS OWN ACCOUNT, TO WHOM NOTICE IS GIVEN THAT THE RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON THE EXEMPTION FROM SECURITIES ACT REGISTRATION PROVIDED BY RULE 144A OR (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE SECURITIES ACT ("**REGULATION S**"), (B) IN COMPLIANCE WITH THE CERTIFICATION AND OTHER REQUIREMENTS SPECIFIED IN THE ISSUER CHARTER REFERRED TO BELOW AND THE PREFERENCE SHARE PAYING AGENCY AGREEMENT REFERRED TO BELOW AND (C) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND ANY OTHER APPLICABLE JURISDICTION. THE ISSUER HAS NOT BEEN REGISTERED UNDER THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "**INVESTMENT COMPANY ACT**"). NO TRANSFER OF THE PREFERENCE SHARES REPRESENTED HEREBY (OR ANY INTEREST HEREIN) MAY BE MADE (AND NEITHER THE ISSUER NOR THE TRANSFER AGENT NOR THE SHARE REGISTRAR NOR PAYING AGENT WILL RECOGNIZE ANY SUCH TRANSFER) IF (A) SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE WHO IS A U.S. RESIDENT (WITHIN THE MEANING OF THE INVESTMENT COMPANY ACT) THAT IS NOT (I) A "QUALIFIED PURCHASER" AS DEFINED IN THE INVESTMENT COMPANY ACT, (II) A "KNOWLEDGEABLE EMPLOYEE" WITH RESPECT TO THE ISSUER WITHIN THE MEANING OF RULE 3c-5 UNDER THE INVESTMENT COMPANY ACT OR (III) A COMPANY BENEFICIALLY OWNED EXCLUSIVELY BY ONE OR MORE "QUALIFIED PURCHASERS" AND/OR "KNOWLEDGEABLE EMPLOYEES" WITH RESPECT TO THE ISSUER, (B) SUCH TRANSFER WOULD HAVE THE EFFECT OF REQUIRING THE ISSUER OR THE COLLATERAL TO REGISTER AS AN INVESTMENT COMPANY UNDER THE INVESTMENT COMPANY ACT, (C) SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE THAT IS A U.S. RESIDENT WHICH IS A FLOW-THROUGH INVESTMENT VEHICLE OTHER THAN A QUALIFYING INVESTMENT VEHICLE (EACH AS DEFINED IN THE ISSUER CHARTER) 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 ATTACHED AS AN EXHIBIT TO THE PREFERENCE SHARE PAYING AGENCY AGREEMENT, DATED AS OF MARCH 15, 2007, MADE AMONG THE ISSUER, THE PAYING AGENT AND TRANSFER AGENT, AND THE SHARE REGISTRAR (THE "**PREFERENCE SHARE PAYING AGENCY AGREEMENT**"). ACCORDINGLY, AN INVESTOR IN THIS PREFERENCE SHARES MUST BE PREPARED TO BEAR THE ECONOMIC RISK OF THE INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.

NO PREFERENCE SHARE MAY BE PURCHASED OR TRANSFERRED TO, ON BEHALF OF OR USING THE ASSETS OF (I) AN EMPLOYEE BENEFIT PLAN SUBJECT TO TITLE I OF ERISA OR A PLAN SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE") (EACH SUCH PLAN, AN "ERISA PLAN"); (II) A COLLECTIVE INVESTMENT FUND, SEPARATE ACCOUNT OR OTHER ENTITY WHOSE UNDERLYING ASSETS ARE TREATED AS "PLAN ASSETS" OF AN ERISA PLAN UNDER U.S. DEPARTMENT OF LABOR REGULATION SECTION 2510.3-101 (A "BENEFIT PLAN INVESTOR"); OR (III) A PERSON ACTING ON BEHALF OF AN ERISA PLAN AS MODIFIED BY SECTION 3(42) OF ERISA.

Exhibit A-2

FORM OF REGULATION S GLOBAL SHARE CERTIFICATE

GEMSTONE CDO VII LTD.

Number	Preference Shares	ISIN
-[ ]-	-[ ]-	[ ]

Incorporated under the laws of the Cayman Islands
US $845.00 Capital divided into 250 Ordinary Shares
of a nominal par value of US $1.00 per share and
59,500 Preference Shares of a par value of US $0.01 per share

THIS IS TO CERTIFY THAT

- CEDE & CO. -

is the registered holder of

- [ ] Preference Shares -

in the above-named Company subject to the Memorandum and Articles of Association thereof.

ISSUED BY the said Company on this March 15, 2007.

EXECUTED on behalf of the said Company by:

DIRECTOR _____

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THE PREFERENCE SHARES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION, AND MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (A)(1) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT ("**RULE 144A**"), PURCHASING FOR ITS OWN ACCOUNT, TO WHOM NOTICE IS GIVEN THAT THE RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON THE EXEMPTION FROM SECURITIES ACT REGISTRATION PROVIDED BY RULE 144A OR (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE SECURITIES ACT ("**REGULATION S**"), (B) IN COMPLIANCE WITH THE CERTIFICATION AND OTHER REQUIREMENTS SPECIFIED IN THE ISSUER CHARTER REFERRED TO BELOW AND THE PREFERENCE SHARE PAYING AGENCY AGREEMENT REFERRED TO BELOW AND (C) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND ANY OTHER APPLICABLE JURISDICTION. THE ISSUER HAS NOT BEEN REGISTERED UNDER THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "**INVESTMENT COMPANY ACT**"). NO TRANSFER OF THE PREFERENCE SHARES REPRESENTED HEREBY (OR ANY INTEREST HEREIN) MAY BE MADE (AND NEITHER THE ISSUER NOR THE TRANSFER AGENT NOR THE SHARE REGISTRAR NOR THE PAYING AGENT WILL RECOGNIZE ANY SUCH TRANSFER) IF (A) SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE WHO IS A U.S. RESIDENT (WITHIN THE MEANING OF THE INVESTMENT COMPANY ACT) THAT IS NOT (I) A "QUALIFIED PURCHASER" AS DEFINED IN THE INVESTMENT COMPANY ACT, (II) A "KNOWLEDGEABLE EMPLOYEE" WITH RESPECT TO THE ISSUER WITHIN THE MEANING OF RULE 3c-5 UNDER THE INVESTMENT COMPANY ACT OR (III) A COMPANY BENEFICIALLY OWNED EXCLUSIVELY BY ONE OR MORE "QUALIFIED PURCHASERS" AND/OR "KNOWLEDGEABLE EMPLOYEES" WITH RESPECT TO THE ISSUER, (B) SUCH TRANSFER WOULD HAVE THE EFFECT OF REQUIRING THE ISSUER OR THE COLLATERAL TO REGISTER AS AN INVESTMENT COMPANY UNDER THE INVESTMENT COMPANY ACT, (C) SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE THAT IS A U.S. RESIDENT WHICH IS A FLOW-THROUGH INVESTMENT VEHICLE OTHER THAN A QUALIFYING INVESTMENT VEHICLE (EACH AS DEFINED IN THE ISSUER CHARTER) 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 ATTACHED AS AN EXHIBIT TO THE PREFERENCE SHARE PAYING AGENCY AGREEMENT, DATED AS OF MARCH 15, 2007, MADE AMONG THE ISSUER, THE PAYING AGENT AND TRANSFER AGENT AND THE SHARE REGISTRAR (THE "**PREFERENCE SHARE PAYING AGENCY AGREEMENT**"). ACCORDINGLY, AN INVESTOR IN THIS PREFERENCE SHARES MUST BE PREPARED TO BEAR THE ECONOMIC RISK OF THE INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.

NO PREFERENCE SHARE MAY BE PURCHASED OR TRANSFERRED TO, ON BEHALF OF OR USING THE ASSETS OF (I) AN EMPLOYEE BENEFIT PLAN SUBJECT TO TITLE I OF ERISA OR A PLAN SUBJECT TO SECTION 4975 OF

THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE"CODE") (EACH SUCH PLAN, AN "ERISA PLAN"); (II) A COLLECTIVE INVESTMENT FUND, SEPARATE ACCOUNT OR OTHER ENTITY WHOSE UNDERLYING ASSETS ARE TREATED AS "PLAN ASSETS" OF AN ERISA PLAN UNDER U.S. DEPARTMENT OF LABOR REGULATION SECTION 2510.3-101 (A "BENEFIT PLAN INVESTOR"); (III) A PERSON ACTING ON BEHALF OF AN ERISA PLAN OR; OR (IV) UNLESS NONE OF ITS ASSETS COULD BE DEEMED TO INCLUDE "PLAN ASSETS" SUBJECT TO TITLE I OF ERISA OR SECTION 4975 OF THE CODE, ANY OTHER BENEFIT PLAN INVESTOR.

Exhibit B

INVESTOR LETTER FOR PREFERENCE SHARES

March 15, 2007

(1) Deutsche Bank Trust Company Americas
1761 East St. Andrew Place
Santa Ana, California 92705

(2) Gemstone CDO VII Ltd.
c/o Deutsche Bank (Cayman) Limited,
P.O. Box 1984
Grand Cayman KY1-1104,
Cayman Islands
Facsimile: (345) 949 8244
Telephone: (345) 949 5223
Attention: Directors

(3) [Deutsche Bank Securities Inc.
60 Wall Street, New York
New York 10005
Attention: Global Markets/CDO Group]

Re: Gemstone CDO VII Ltd. Preference Shares

Ladies and Gentlemen:

The undersigned proposes to purchase the Preference Shares identified below issued by Gemstone CDO VII Ltd. (the "**Issuer**"), pursuant to its articles of incorporation (the "**Articles**"), certain resolutions of its board of directors passed prior to the issue of the Preference Shares (the "**Resolutions**") and the Preference Share Paying Agency Agreement, to be dated as of March 15, 2007 (together the "**Preference Share Documents**"), between the Issuer, Deutsche Bank Trust Company Americas, as Paying Agent (the "**Paying Agent**"), and Deutsche Bank (Cayman) Limited, as Share Registrar (the "**Share Registrar**"). Capitalized terms used in this letter which are not defined herein bear the same meanings as in the Preference Share Paying Agency Agreement. In connection with our proposed purchase of such Preference Shares we acknowledge, represent, agree and confirm that:

(1) The Preference Shares have not been approved or disapproved by the SEC or any other governmental authority or agency of any jurisdiction, nor has the SEC or any other governmental authority or agency passed upon the accuracy or adequacy of this Offering Circular and any representation to the contrary is a criminal offense.

(2) If required by the Preference Share Documents, we will, prior to any sale, pledge or other transfer by us of any Preference Shares (or any interest therein), obtain from the transferee and deliver to the Issuer and the Share Registrar a duly executed transferee certificate addressed to each of the Administrator or the Issuer in the form of the relevant exhibit attached to the Preference Share Paying Agency Agreement and such other certificates and other information

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as the Issuer or the Share Registrar may reasonably require to confirm that the proposed transfer substantially complies with the transfer restrictions contained in the Preference Share Documents.

(3) No Preference Shares (or any interest therein) may be sold, pledged or otherwise transferred unless such transfer is done in minimum lots of 200 shares and integral multiples of 1 share in excess thereof. In addition, Preference Shares sold to an initial Holder in reliance on Regulation 144A under the Securities Act ("**Rule 144A Preference Shares**") will be issued in fully registered, definitive form and will be transferable only by delivery of the certificates representing such Preference Shares and a duly executed instrument of transfer signed by the transferor.

(4) The Preference Shares have not been registered under the Securities Act and, therefore, cannot be offered or sold in the United States or to U.S. Persons (as defined in Rule 902(k) promulgated under the Securities Act) unless they are registered under the Securities Act or unless an exemption from registration is available. We understand that the Issuer has no obligation to register any of the Preference Shares 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 Preference Share Paying Agency Agreement).

*(5) We (a) are a Qualified Institutional Buyer acquiring the Preference Shares for our own account for investment purposes and not with a view to the distribution thereof (except in accordance with Rule 144A) or (b) (i) are not a U.S. Person (as defined in Regulation S) and are purchasing such Preference Shares for our own account and not for the account or benefit of a U.S. Person and (ii) understand that prior to the end of the Distribution Compliance Period, interests in a Preference Share sold to an initial Holder who is a non-U.S. Person pursuant to Regulation S under the Securities Act ("**Regulation S Preference Share**") may only be held through Euroclear or Clearstream.

*(6) We (a) have such knowledge and experience in financial and business matters that we are capable of evaluating the merits and risks (including for tax, legal, regulatory, accounting and other financial purposes) of our prospective investment in Preference Shares, (b) are financially able to bear such risk, (c) in making such investment are not relying on the advice or recommendations of the Initial Purchaser, the Issuer, the Collateral Manager or any of their respective affiliates (or any representative of any of the foregoing) and (d) have determined that an investment in Preference Shares is suitable and appropriate for us. We have received, and have had an adequate opportunity to review the contents of, the Offering Circular dated March 13, 2007 related to the Preference Shares. We have had access to such financial and other information concerning the Issuer, the Preference Shares as we have deemed necessary to make our own independent decision to purchase Preference Shares, including the opportunity, at a reasonable time prior to our purchase of Preference Shares, to ask questions and receive answers concerning the Issuer and the terms and conditions of the offering of the Preference Shares.

(7) No Preference Shares (or any interest therein) may be offered, sold, pledged or otherwise transferred to (a) a transferee acquiring Rule 144A Preference Shares except to a transferee whom the seller reasonably believes is a qualified institutional buyer (as defined in Rule 144A) (a "**Qualified Institutional Buyer**"), 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 another exemption from the registration requirements of the Securities Act (subject to the delivery of such certifications, legal opinions or other information as the Issuer may reasonably require to confirm that such transfer is being made

pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act), (ii) to a transferee that is a Qualified Purchaser or is not a U.S. resident (within the meaning of the Investment Company Act), (iii) to a transferee that is not a Flow-Through Investment Vehicle (other than a Qualifying Investment Vehicle), (iv) if such transfer is made in compliance with the certification and other requirements set forth in the Issuer Charter and (v) if such transfer is made in accordance with any applicable securities laws of any state of the United States and any other relevant jurisdiction or (b) a transferee acquiring an interest in a Regulation S Preference Share except (i) to a transferee that is acquiring such interest in an offshore transaction (within the meaning of Regulation S) in accordance with Rule 904 of Regulation S, (ii) to a transferee (other than any transferee who acquires an interest in a Regulation S Preference Share after the end of the Distribution Compliance Period in an offshore transaction in accordance with Rule 904 of Regulation S) that is not a U.S. resident (within the meaning of the Investment Company Act) unless such transferee is a Qualified Purchaser, (iii) to a transferee (other than any transferee who acquires an interest in a Regulation S Preference Share after the end of the Distribution Compliance Period in an offshore transaction in accordance with Rule 904 of Regulation S) that is not a U.S. resident (within the meaning of the Investment Company Act) or a transferee that is not a Flow-Through Investment Vehicle (other than a Qualifying Investment Vehicle), (iv) if such transfer is made in compliance with the other requirements set forth in the Issuer Charter and (v) if such transfer is made in accordance with any applicable securities laws of any state of the United States and any other relevant jurisdiction.

*(8) There is no market for Preference Shares and that no assurance can be given as to the liquidity of any trading market for Preference Shares and that it is unlikely that a trading market for any of the Preference Shares will develop. We further understand that, although the Initial Purchaser may from time to time make a market in Preference Shares, the Initial Purchaser is under no obligation to do so and, following the commencement of any market-making, may discontinue the same at any time. Accordingly, we are prepared to hold Preference Shares for an indefinite period of time or until their maturity.

(9) We either (a) are not a U.S. resident (within the meaning of the Investment Company Act) or (b) are a Qualified Purchaser. No sale, pledge or other transfer of Preference Shares (or any interest therein) may be made (a) unless such transfer is made to a transferee who, if a U.S. resident (within the meaning of the Investment Company Act) (other than any transferee who acquires an interest in Regulation S Preference Shares after the end of the Distribution Compliance Period in an offshore transaction in accordance with Rule 904 of Regulation S), is a Qualified Purchaser or (b) if such transfer would have the effect of requiring the Issuer or the Collateral to register as an investment company under the Investment Company Act. If we are a U.S. resident, being an entity that would be an investment company but for the exception provided for in Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act (any such entity, an "**excepted investment company**"): (x) all of the beneficial owners of outstanding securities (other than short-term paper) issued by us (such beneficial owners determined in accordance with Section 3(c)(1)(A) of the Investment Company Act) that acquired such securities on or before April 30, 1996 ("**pre-amendment beneficial owners**"); and (y) all pre-amendment beneficial owners of the outstanding securities (other than short-term paper) of any excepted investment company that, directly or indirectly, owns any outstanding securities issued by us, have consented to our treatment as a Qualified Purchaser in accordance with the Investment Company Act.

The Preference Share Documents provide that if, notwithstanding the restrictions on transfer contained therein, the Issuer determines that any beneficial owner of Rule 144A Preference Shares (A) is a U.S. Person (within the meaning of Regulation S under the Securities

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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 Rule 144A Preference Shares to a Person that is both (i) a Qualified Institutional Buyer and (ii) a Qualified Purchaser, with such sale to be effected within 30 days after notice of such sale requirement is given. If such beneficial owner fails to effect the transfer required within such 30-day period, (i) upon direction from the Collateral Manager or the Issuer, the Share Registrar, on behalf of and at the expense of the Issuer, shall cause such beneficial owner's interest in such Preference Share to be transferred in a commercially reasonable sale (conducted by an investment banker selected by the 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 the Share Registrar, the Issuer 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 (b) pending such transfer, no further payments will be made in respect of such Preference Shares held by such beneficial owner.

(10) No Preference Share may be purchased or transferred to, on behalf of or using the assets of (i) an employee benefit plan subject to Title I of ERISA or a plan subject to Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the"Code") (each such plan, an "ERISA Plan"); (ii) a collective investment fund, separate account or other entity whose underlying assets are treated as "Plan Assets" of an ERISA Plan under U.S. Department of Labor Regulation Section 2510.3-101 as modified by Section 3(42) of ERISA (a "Benefit Plan Investor"); or (iii) a person acting on behalf of an ERISA Plan.

(11) We represent that, unless we are a Qualifying Investment Vehicle (as defined below), (a) if we 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 our investment in the Preference Shares does not exceed 40% of our total assets (determined on a consolidated basis with our subsidiaries); (b) no person owning any equity or similar interest in us has the ability to control our investment decisions or to determine, on an investment-by-investment basis, the amount of such person's contribution to any investment made by us; (c) we were not organized or reorganized for the specific purpose of acquiring Preference Shares; and (d) no additional capital or similar contributions were specifically solicited from any person owning an equity or similar interest in us for the purpose of enabling us to purchase Preference Shares (any such entity in (a), (b), (c) or (d) above being herein referred to as a "**Flow-Through Investment Vehicle**"). For this purpose, a "**Qualifying Investment Vehicle**" is an entity (i) as to which all of the beneficial owners of any securities issued by an entity have made, and as to which (in accordance with the document pursuant to which such entity was organized or the agreement or other document governing such securities) each such beneficial owner must require any transferee of any such security to make, to the Issuer and the Share Registrar each of the representations set forth herein and in the Preference Share Paying Agency Agreement required to be made upon transfer of any Preference Shares. If we are a Flow-Through Investment Vehicle, we represent and warrant that either (a) none of the beneficial owners of our securities are U.S. residents (within the meaning of the Investment Company Act) or (b) some or all of the beneficial owners of our securities are U.S. residents (within the meaning of the Investment Company Act) and each such beneficial owner has certified to us that it is a Qualified Purchaser. If we are a Flow-Through Investment Vehicle, we also represent and warrant that we have 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 Preference Shares).

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

(13) We are not a member of the public in the Cayman Islands.

(14) A legend in substantially the following form will be placed on each certificate representing any Preference Shares:

> THE PREFERENCE SHARES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION, AND MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (A)(1) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT ("**RULE 144A**"), PURCHASING FOR ITS OWN ACCOUNT, TO WHOM NOTICE IS GIVEN THAT THE RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON THE EXEMPTION FROM SECURITIES ACT REGISTRATION PROVIDED BY RULE 144A OR (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE SECURITIES ACT ("**REGULATION S**"), (B) IN COMPLIANCE WITH THE CERTIFICATION AND OTHER REQUIREMENTS SPECIFIED IN THE ISSUER CHARTER REFERRED TO HEREIN AND THE PREFERENCE SHARE PAYING AGENCY AGREEMENT REFERRED TO BELOW AND (C) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND ANY OTHER APPLICABLE JURISDICTION. THE ISSUER HAS NOT BEEN REGISTERED UNDER THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "**INVESTMENT COMPANY ACT**"). NO TRANSFER OF THE PREFERENCE SHARES REPRESENTED HEREBY (OR ANY INTEREST HEREIN) MAY BE MADE (AND NEITHER THE ISSUER NOR THE TRANSFER AGENT NOR THE SHARE REGISTRAR NOR THE PAYING AGENT WILL RECOGNIZE ANY SUCH TRANSFER) IF (A) SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE WHO IS A U.S. RESIDENT (WITHIN THE MEANING OF THE INVESTMENT COMPANY ACT) THAT IS NOT (I) A "QUALIFIED PURCHASER" AS DEFINED IN THE INVESTMENT COMPANY ACT, (II) A "KNOWLEDGEABLE EMPLOYEE" WITH RESPECT TO THE ISSUER WITHIN THE MEANING OF RULE 3c-5 UNDER THE INVESTMENT COMPANY ACT OR (III) A COMPANY BENEFICIALLY OWNED EXCLUSIVELY BY ONE OR MORE "QUALIFIED PURCHASERS" AND/OR "KNOWLEDGEABLE EMPLOYEES" WITH RESPECT TO THE ISSUER, (B) SUCH TRANSFER WOULD HAVE THE EFFECT OF REQUIRING THE ISSUER OR THE COLLATERAL TO REGISTER AS AN INVESTMENT COMPANY UNDER THE INVESTMENT COMPANY ACT, (C) SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE THAT IS A U.S. RESIDENT WHICH IS A FLOW-THROUGH INVESTMENT VEHICLE OTHER

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THAN A QUALIFYING INVESTMENT VEHICLE (EACH AS DEFINED IN THE ISSUER CHARTER) 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 ATTACHED AS AN EXHIBIT TO THE PREFERENCE SHARE PAYING AGENCY AGREEMENT, DATED AS OF MARCH 15, 2007, MADE AMONG THE ISSUER, THE PAYING AGENT AND TRANSFER AGENT AND THE SHARE REGISTRAR (THE "**PREFERENCE SHARE PAYING AGENCY AGREEMENT**"). ACCORDINGLY, AN INVESTOR IN THIS PREFERENCE SHARES MUST BE PREPARED TO BEAR THE ECONOMIC RISK OF THE INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.

NO PREFERENCE SHARE MAY BE PURCHASED OR TRANSFERRED TO, ON BEHALF OF OR USING THE ASSETS OF (I) AN EMPLOYEE BENEFIT PLAN SUBJECT TO TITLE I OF ERISA OR A PLAN SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE") (EACH SUCH PLAN, AN "ERISA PLAN"); (II) A COLLECTIVE INVESTMENT FUND, SEPARATE ACCOUNT OR OTHER ENTITY WHOSE UNDERLYING ASSETS ARE TREATED AS "PLAN ASSETS" OF AN ERISA PLAN UNDER U.S. DEPARTMENT OF LABOR REGULATION SECTION 2510.3-101 AS MODIFIED BY SECTION 3(42) OF ERISA (A "BENEFIT PLAN INVESTOR"); OR (III) A PERSON ACTING ON BEHALF OF AN ERISA PLAN.

(15) Our Taxpayer Identification Number is _____.

(16) We hereby certify that we [check one] ____are ____are not an Affiliate (as defined in the Indenture) or nominee of the Paying Agent, the Issuer, the Co-Issuer or a nominee of an Affiliate of any of them. We [check one] ____are ____are not an Affiliate of the Collateral Manager.

[(17) We agree not to engage in hedging transactions with regard to the Preference Shares unless we are thereby in compliance with the Securities Act.]

(18) We agree to provide the Paying Agent in writing with any additional registration, payment and delivery information as the Trustee may reasonably request.

Very truly yours,

_____
(Name of Investor)

By:_____
Name:
Title:

PREFERENCE SHARES TO BE PURCHASED

__/ U.S.$_____ aggregate principal amount of Preference Shares

* *Note: the paragraphs (5), (6) and (8) are to be deleted for all purchasers other than the initial*

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purchaser. Paragraphs (7) to (14) are to be renumbered as the new paragraphs (5) to (11) accordingly with the following added as the new paragraphs (12) and (13):-

"(12) In the case where we are a transferee taking delivery of Rule 144A Preference Shares, we (i) are both (x) a Qualified Institutional Buyer and (y) a Qualified Purchaser; (ii) are not a dealer described in paragraph (a)(1)(ii) of Rule 144A unless we own and invest on a discretionary basis at least U.S.$25,000,000 in securities of issuers that are not affiliated persons of the dealer; (iii) are not a plan referred to in paragraph (a)(1)(i)(D) or (a)(1)(i)(E) of Rule 144A, or a trust fund referred to in paragraph (a)(1)(i)(F) of Rule 144A that holds the assets of such a plan, unless investment decisions with respect to the plan are made solely by the fiduciary, trustee or sponsor of such plan; (iv) will provide written notice of the foregoing, and of any applicable restrictions on transfer, to any transferee, (v) are aware that the sale to us is being made in reliance on Rule 144A or another exemption from the registration requirements of the Securities Act; and (vi) are acquiring such Preference Shares for our own account; *provided* that if we are a transferee of Preference Shares (or interest therein) acquiring pursuant to a transfer made in accordance with exemption from the registration requirements of the Securities Act other than Rule 144A (subject to the delivery of such certifications, legal opinions or other information as the Issuer may reasonably require to confirm that such transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act), we need not make any of the foregoing representations relating to Rule 144A. In the case where we are a transferee taking delivery of Regulation S Preference Shares, we (i) are acquiring such Regulation S Preference Shares in an offshore transaction in accordance with Rule 904 of Regulation S, (ii) are acquiring such Regulation S Preference Shares for our own account, (iii) are not acquiring, and have not entered into any discussions regarding our acquisition of, such Regulation S Preference Shares while we are in the United States or any of its territories or possessions, (iv) understand that such Regulation S Preference Shares are being sold without registration under the Securities Act by reason of an exemption that depends, in part, on the accuracy of these representations, (v) understand that such Regulation S Preference Shares may not, absent an applicable exemption, be transferred without registration and/or qualification under the Securities Act and applicable state securities laws and the laws of any other applicable jurisdiction and (vi) understand that prior to the end of the Distribution Compliance Period, interests in Regulation S Preference Shares may only be held through Euroclear or Clearstream. In addition, we enclose or will, prior to the transfer of the Preference Shares to us, deliver to you, with a copy to the Share Registrar, an executed certificate in the appropriate form attached to the Preference Share Paying Agency Agreement, if so required by the Preference Share Paying Agency Agreement.

(13) We acknowledge that the foregoing acknowledgements, representations and agreements will be relied upon by you and the Transfer Agent for the purpose of determining our eligibility to purchase Preference Shares. We agree to provide, if requested, any additional information that may be required to substantiate our status as a Qualified Institutional Buyer or our eligibility for an exception under the Investment Company Act, to determine compliance with ERISA and/or Section 4975 of the Code or to otherwise determine our eligibility to purchase Preference Shares.",

and the paragraphs (15) to [(18)] renumbered as the new paragraphs (14) to [(17)] accordingly.

Exhibit C

FORM OF RULE 144A TRANSFEROR CERTIFICATE

[__], 2007

(1) Deutsche Bank Trust Company Americas
1761 East St. Andrew Place
Santa Ana, California 92705

(2) Gemstone CDO VII Ltd.
c/o Deutsche Bank (Cayman) Limited,
P.O. Box 1984
Grand Cayman KY1-1104,
Cayman Islands
Facsimile: (345) 949 8244
Telephone: (345) 949 5223
Attention: Directors

(3) [Deutsche Bank Securities Inc.
60 Wall Street, New York
New York 10005
Attention: Global Markets/CDO Group]

Re: Gemstone CDO VII Ltd. Preference Shares

Ladies and Gentlemen:

Reference is hereby made to the Preference Share Paying Agency Agreement, dated as of March 15, 2007, as amended and supplemented from time to time (the "**Preference Share Paying Agency Agreement**") among Gemstone CDO VII Ltd. (the "**Issuer**"), Deutsche Bank Trust Company Americas, as paying agent and transfer agent, and Deutsche Bank (Cayman) Limited, as Share Registrar. Capitalized terms used but not defined herein shall have the meanings given to them in the Preference Share Paying Agency Agreement.

This letter relates to _____ Preference Shares (the "**Preference Shares**") of the Issuer which are registered in the name of [insert name of transferor] (the "**Transferor**"). The Transferor has requested a transfer of such Preference Shares for Preference Shares registered in the name of [insert name of transferee].

In connection with such request, and in respect of such Preference Shares, the Transferor does hereby certify that such Preference Shares are being transferred in accordance with (i) the transfer restrictions set forth in Section 8 of the Preference Share Paying Agency Agreement and the Preference Shares and (ii) Rule 144A under the Securities Act to a transferee that the Transferor reasonably believes is purchasing the Preference Shares for its own account or an account with respect to which the transferee exercises sole investment discretion and the transferee and any such account is a "qualified institutional buyer" within the meaning of Rule 144A, and such transferee is aware that the sale, pledge or other transfer to it is being made in reliance upon Rule 144A, and (iii) any applicable securities laws of any state of the United States or any other jurisdiction.

Confidential Treatment Requested GEM7-00001126

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[Insert Name of Transferor]

By_____
Name:
Title:

Dated: _____

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Exhibit D

FORM OF REGULATION S TRANSFEROR CERTIFICATE

[__], 2007

(1) Deutsche Bank Trust Company Americas
1761 East St. Andrew Place
Santa Ana, California 92705

(2) Gemstone CDO VII Ltd.
c/o Deutsche Bank (Cayman) Limited,
P.O. Box 1984
Grand Cayman KY1-1104,
Cayman Islands
Facsimile: (345) 949 8244
Telephone: (345) 949 5223
Attention: Directors

(3) [Deutsche Bank Securities Inc.
60 Wall Street, New York
New York 10005
Attention: Global Markets/CDO Group]

Re: GEMSTONE CDO VII Ltd. Preference Shares

Ladies and Gentlemen:

Reference is hereby made to the Preference Share Paying Agency Agreement, dated as of March 15, 2007 (the "**Preference Share Paying Agency Agreement**"), among Gemstone CDO VII Ltd. (the "**Issuer**"), Deutsche Bank Trust Company Americas, as paying agent and transfer agent, and Deutsche Bank (Cayman) Limited, as Share Registrar. Capitalized terms used but not defined herein shall have the meanings assigned to them in the Preference Share Paying Agency Agreement. Other terms shall have the meanings assigned to them in Regulation S under the U.S. Securities Act of 1933, as amended (the "**Securities Act**").

This letter relates to _____ Preference Shares (the "**Preference Shares**") of the Issuer which are held in the registered name of [insert name of transferor] (the "**Transferor**"). The Transferor has requested a transfer of such Preference Shares for Preference Shares registered in the name of [insert name of transferee].

In connection with such request and in respect of such Preference Shares, the Transferor does hereby certify that such transfer has been effected in accordance with the transfer restrictions set forth in Section 8 of the Preference Share Paying Agency Agreement and the Preference Shares and pursuant to and in accordance with Regulation S under the Securities Act, and accordingly the Transferor does hereby certify that:

(1) the offer of the Preference Shares was not made to a person in the United States;

[(2) at the time the buy order was originated, the transferee was outside the United States or the Transferor and any person acting on its behalf reasonably believed that the transferee was outside the United States;]*

[(2) the transaction was executed in, on or through the facilities of a designated offshore securities market and neither the Transferor nor any person acting on its behalf knows that the transaction was prearranged with a buyer in the United States;]*

*Insert one of these provisions.

(3) no directed selling efforts have been made in contravention of the requirements of Rule 903(b) or 904(b) of Regulation S, as applicable; and

(4) the transaction is not part of a plan or scheme to evade the registration requirements of the Securities Act.

[Insert Name of Transferor]

By_____
Name:
Title:

Dated: _____

An extra section break has been inserted above this paragraph. Do not delete this section break if you plan to add text after the Table of Contents/Authorities. Deleting this break will cause Table of Contents/Authorities headers and footers to appear on any pages following the Table of Contents/Authorities.

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15 March, 2007

DEUTSCHE BANK (CAYMAN) LIMITED

and

GEMSTONE CDO VII LTD.

AMENDED AND RESTATED ADMINISTRATION AGREEMENT

MAPLES and CALDER

DMC/624524/11236870v3

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1359

GEM7-00001223

THIS AMENDED AND RESTATED ADMINISTRATION AGREEMENT is made this 15th day of March, 2007.

BETWEEN:

(1) **GEMSTONE CDO VII LTD.**, a company incorporated in the Cayman Islands, the registered office of which is at PO Box 1984, George Town, Grand Cayman KY1-1104, Cayman Islands (the **"Company"**); and

(2) **DEUTSCHE BANK (CAYMAN) LIMITED,** the principal office of which is at PO Box 1984, George Town, Grand Cayman KY1-1104, Cayman Islands (the **"Administrator"**).

WHEREAS:

(A) The Company and the Administrator executed an Administration Agreement on 20 October, 2006 (the **"Original Administration Agreement"**) and intend to amend and restate that agreement in its entirety by replacing it with this amended and restated Administration Agreement (as amended and restated, the **"Administration Agreement"**).

(B) The Company has been established for the purpose of (i) issuing Notes (the **"Notes"**) in accordance with the terms and conditions thereof (the **"Conditions"**) as constituted by the Indenture (the **"Indenture"**) to be entered into by the Company, Gemstone CDO VII Corp. and Deutsche Bank Trust Company Americas as trustee (in such capacity, the **"Notes Trustee"**) and as securities intermediary, (ii) issuing preference shares (the **"Preference Shares"**) on or about the date hereof in accordance with a preference share paying agency agreement among the Company, Deutsche Bank Trust Company Americas as preference share paying agent (in such capacity, the **"Preference Share Paying Agent"**) and as transfer agent and Deutsche Bank (Cayman) Limited as share registrar (the **"Preference Share Paying Agency Agreement"**), (iii) purchasing a diversified portfolio of securities and other assets and (iv) entering into ancillary documents and arrangements in respect thereof including any warehousing arrangements prior to the issue of the Notes and Preference Shares (the **"Business"**).

(B) The Company has requested the Administrator to provide in the Cayman Islands certain management, administrative and related services which the Administrator has agreed to do subject to the terms and conditions hereinafter appearing.

(C) Terms used herein and not otherwise defined herein shall have the meanings ascribed to them in the Indenture and/or the Preference Share Paying Agency Agreement.

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IT IS AGREED as follows:

1 APPOINTMENT OF ADMINISTRATOR

The Company hereby retains the Administrator and the Administrator agrees to provide such services as are hereinafter set forth for the period from the date the directors of the Company were appointed pursuant to sub-clause 2.4 below to the date on which the Company is dissolved or the date on which this Agreement is terminated in accordance with Clause 7, if earlier.

2 SERVICES TO BE PROVIDED

The Administrator hereby agrees to perform and provide the services necessary and appropriate to the management of the Business in and from within the Cayman Islands as follows:

2.1 to provide signatories on the Company's bank accounts from among the Administrator's employees;

2.2 to prepare and maintain such books and records in the Cayman Islands as may be required in the normal course of the Business and as may be agreed between the parties and in order to comply with any laws or regulations of the Cayman Islands and in such form and manner as may be agreed upon from time to time;

2.3 to deal with correspondence relating to the Business;

2.4 to provide the services of two or more directors of the Company in the Cayman Islands;

2.5 to provide a company secretary if required;

2.6 to provide registered office facilities to the company on the Administrator's standard terms and conditions in effect from time to time;

2.7 to make available non-exclusive telephone, facsimile and postal address or post office box facilities and within its premises such non-exclusive space as may be necessary for the purposes of the Business and in particular but without limitation facilities for meetings of the directors from time to time;

2.8 not to undertake actions inconsistent with the terms of the Memorandum and Articles of Association of the Company, the Indenture, the Preference Share Paying Agency Agreement and all other agreements to which the Company is a party and copies of which have been provided to the Administrator and, without prejudice to the foregoing, not to enter into, on behalf of the Company, any commitments, loans or obligations or charge, mortgage, pledge, encumber or otherwise restrict or dispose of the Company's property or assets other than as contemplated by the Business and generally not to take any action regarding the Business inconsistent with the Conditions , the Indenture and the Preference Share Paying Agency Agreement;

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2.9 to keep confidential all documents, materials and other information relating to the Business and not to disclose any of the aforesaid without the prior consent of the Company unless it is necessary to protect the interests of the Administrator or pursuant to an order of any court or authority with jurisdiction over the Administrator or the Company or as contemplated by the Conditions, the Indenture or any other document relating or ancillary to the issue of the Notes;

2.10 to perform all services and take all actions in connection with this agreement in or from within the Cayman Islands; and

2.11 to act as share registrar as defined in and pursuant to the Preference Share Paying Agency Agreement, in which such capacity the Administrator shall:

2.11.1 maintain the Register of Members of the Company (the **"Register"**) in accordance with Cayman Islands law and the articles of association of the Company (the **"Articles"**) and the Preference Share Paying Agency Agreement;

2.11.2 receive requests from holders of the Company's shares, forwarded by the transfer agent appointed by the Company pursuant to the Preference Share Paying Agency Agreement or from the Notes Trustee for transfers of shares of the Company, including Preference Shares, and deal therewith in accordance with the provisions of the Articles and the resolutions of the directors of the Company and the Preference Share Paying Agency Agreement;

2.11.3 in relation to such requests for transfers of shares, subject to receipt of the relevant share certificates, duly completed forms of transfer in a form acceptable to the Administrator, the Administrator will register such transfer by making the necessary entries on the Register, and will prepare new certificates for such shares, cancel any old certificates for the shares and forward new share certificates to the transfer agent or directly to the shareholders on behalf of the Company;

2.11.4 at any time during business hours, permit any duly appointed agent or representative of the Company and any person entitled to inspect pursuant to the Preference Share Paying Agency Agreement, at the expense of the Company, to inspect the Register or other documents or records kept by and in the possession of the Administrator and give such agent or representative during business hours all information, explanations and assistance as such agent or representative may reasonably require;

2.11.5 safeguard the Register and documents in connection therewith and enter on such Register all original issues or allotments of shares and all transfers, redemptions and repurchases of such shares, all in accordance with the provisions of the Articles and the resolutions passed by the Company and

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prepare all such lists of shareholders of the Company as may be required by the directors;

2.11.6 send as promptly as reasonably possible to all shareholders copies of all notices received from the Preference Share Paying Agent or the Notes Trustee for forwarding to the shareholders;

2.11.7 upon request at any reasonable time, provide to the Notes Trustee, the Preference Share Paying Agent, the Company and any other agent of the Company or person entitled thereto under any contract entered into with the Company a current list of Preference Shareholders as reflected in the Register; and

2.11.8 not be required to investigate or determine whether any holder or transferee is entitled to hold any shares under any applicable securities or other laws or otherwise satisfies any particular requirements imposed under the Articles or any other document (other than as required in sub-clause 2.11.3).

3 **FEES**

3.1 The Company shall pay the Administrator an initial documentation fee of US$4,000.

3.2 The Company shall pay the Administrator a base fee of US$7,000 per annum (prorated for part years but subject to a minimum of 50% of such amount) payable on the date hereof and annually thereafter in advance on 1st January in each year. The base fee may be increased by the Administrator as set out in sub-clauses 3.5 and 3.6.

3.3 To provide the registered office of the Company in the Cayman Islands, the Company shall pay the Administrator a base fee of US$1,000 per annum (prorated for part years but subject to a minimum of 50% of such amount) payable on the date hereof and annually thereafter in advance on 1st January in each year. The base fee may be increased by the Administrator as set out in sub-clauses 3.5 and 3.6.

3.4 The Company shall pay to the Administrator to act as the Company's share registrar an annual fee of US$2,000 (prorated for part years but subject to a minimum of 50% of such amount) payable on the date hereof and annually thereafter in advance on 1st January in each year. The annual fee may be increased by the Administrator as set out in sub-clauses 3.5 and 3.6.

3.5 The fees set forth in sub-clauses 3.2, 3.3 and 3.4 above shall apply for a period of five (5) years from the date hereof. The amount payable in each succeeding period of five (5) years shall be as agreed by the parties or, failing such agreement by the end of the preceding period, shall be the amount determined by the Administrator after applying the aggregate percentage change in the consumer price index of the Cayman Islands over the preceding period to the amount payable in respect of that period and rounding up to the nearest whole multiple of US$100.

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3.6 Where the Company is required to consider or engage in further activities, litigation or other exceptional matters, additional fees will be subject to further negotiation at the relevant time and in the absence of contrary agreement additional fees will be charged by the Administrator at its hourly rates from time to time in effect.

3.7 The Company shall also pay or reimburse the Administrator for its out-of-pocket expenses for photocopying, fax, telephone, postage and other communications charges and registered office and Registry fees and other such expenses properly incurred by the Administrator on behalf of the Company.

3.8 At the request of the Company, the Administrator shall arrange for the preparation of annual balance sheets and profit and loss accounts and, for this service, will charge an additional fee based upon the time engaged by the appropriate officers of the Administrator and any external accountants or other persons engaged by the Administrator for such purpose at their respective hourly rates from time to time in effect or as otherwise agreed.

3.9 The Company shall pay the Administrator a fee of US$5,600 on account within 30 days of the date hereof against the Administrator's costs in acting as liquidator for the purposes of winding up the Company voluntarily. If the foregoing fee is not so paid and the Administrator subsequently acts as liquidator or the cost of the time spent by the appropriate officers of the Administrator in relation to the liquidation at their then current hourly rates exceeds such amount, the then current fees of the Administrator for so acting shall be payable by the Company due credit being given for any fee paid on account.

4 **LIABILITY OF ADMINISTRATOR AND INDEMNITY**

4.1 The Administrator shall not be liable for any damage, loss, costs or expenses whatsoever to or of the Company at any time from any cause whatsoever unless caused by the Administrator's own fraud or wilful default.

4.2 The Company agrees to indemnify and hold harmless the Administrator, its successors and assigns and their respective directors and officers and employees present and future, the directors, officers provided pursuant to sub-clause 2.1 and, where these are companies, their respective directors, officers and employees present and future (collectively, the **"Indemnified Persons"**) and each of them, as the case may be, against any liability, action, proceedings, claim, demand, costs, damages or expenses whatsoever which they or any of them may incur or be subject to in consequence of this Agreement or as a result of the performance of the functions and services provided for hereunder except as a result of fraud or wilful default of any of the Indemnified Persons and this indemnity shall expressly inure to the benefit of any such person existing or future.

4.3 The Administrator and the directors and officers provided pursuant to Clause 2 shall not be required to take any legal action on behalf of the Company unless fully indemnified to their satisfaction.

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4.4 The provisions of this Clause 4 shall continue to apply notwithstanding the termination of this Agreement.

5 NO COMMERCIAL ADVICE

For the avoidance of doubt the Company agrees that the Administrator is not responsible for the commercial structuring of the Business or for the rendering of investment, commercial, accounting, legal or any other advice whatsoever to the Company or any other person.

6 NO PARTNERSHIP AND NO EMPLOYMENT RELATIONSHIP

6.1 Nothing herein contained shall constitute a partnership between the parties hereto.

6.2 The directors, officers, employees or agents of the Administrator referred to in sub-clause 2.1 shall not be deemed to be employees of the Company or entitled to any remuneration or other benefits from the Company.

6.3 The Administrator shall be entitled to provide services of a like nature to those provided under this Agreement to any other person, firm or corporation.

7 TERMINATION OF AGREEMENT

7.1 The appointment of the Administrator hereunder shall continue until one of the parties gives notice in writing to the other party hereto terminating this Agreement in accordance with sub-clauses 7.2 or 7.3 below. Provided that, termination of the appointment of the Administrator as Share Registrar shall be in accordance with the Preference Share Paying Agency Agreement.

7.2 Either party may terminate this Agreement by giving at least fourteen (14) days notice in writing to the other party with a copy to any applicable rating agencies at any time within twelve months of the happening of any of the following events:

7.2.1 if the other party goes into liquidation or is dissolved (except as a voluntary liquidation or dissolution for the purposes of reconstruction or amalgamation upon terms previously approved in writing by the party otherwise entitled to serve notice) or commits any other act of bankruptcy under applicable laws; or

7.2.2 if the other party commits any breach of its obligations under this Agreement and (if such breach shall be capable of remedy) fails within thirty (30) days of notice served on it requiring it so to do to make good such breach.

7.3 Either party may terminate this Agreement at any time by giving at least three (3) months' notice in writing to the other party with a copy to any applicable rating agencies.

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7.4 Upon termination of this Agreement, the Administrator shall, at the expense of the Company or its liquidator, as the case may be, deliver to the Company, or as it shall direct, all books of account, records, registers, correspondence, documents and all assets relating to the affairs of or belonging to the Company and in the possession of or under the control of the Administrator and shall take all necessary steps to vest in the Company or any new administrator or liquidator, as the case may be, any assets previously held in the name of or to the order of the Administrator on behalf of the Company.

7.5 The Company shall notify each applicable rating agency (if any) rating the Notes and the Notes Trustee (for so long as any of the Notes or Preference Shares are rated by a rating agency):

7.5.1 of any notice given or received pursuant to sub-clause 7.2 or 7.3; or

7.5.2 any amendment or termination to this Agreement.

8 LIMITED RECOURSE

Notwithstanding any provision in this Agreement to the contrary, the rights of recourse of the Administrator against the Company shall be limited to the remaining amounts from time to time available and comprising the assets of the Company (other than the ordinary share capital and the transaction fee charged by the Company) having satisfied or provided for all other prior ranking liabilities of the Company. Accordingly, the Administrator shall have no claim or recourse against the Company in respect of any amount which is or remains unsatisfied after the application of the funds comprising such assets of the Company and/or representing the proceeds of realisation thereof and any remaining obligation to pay any further unsatisfied amounts shall be extinguished. This Clause shall survive termination of this Agreement for any reason whatsoever.

9 NON-PETITION

The Administrator agrees that its rights against the Company under this Agreement are limited to the extent that it will not take any action or proceedings against the Company to recover any amounts due and payable by the Company to it under this Agreement except as expressly permitted by the provisions of this Agreement. The Administrator further agrees that it will not in its capacity as Administrator petition a court for, or take any other action or commence any proceedings for, the liquidation or winding-up of the Company or any other bankruptcy or insolvency proceedings with respect to the Company under the laws at any applicable jurisdiction now or hereafter in effect until one year and one day or, if longer, the preference period then in effect after the later to occur of repayment of all outstanding Notes (if any) or other satisfaction or extinguishment of all liability with respect thereto. This Clause shall survive termination of this Agreement for any reason whatsoever.

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10 NOTICES

Notices to be given hereunder shall be delivered by hand or mailed to the address of the relevant party set out herein and where mailed shall be deemed to be duly given on the fifth day after the date of mailing. In the case of notice to the Company, a copy shall also be delivered by hand or mailed to:

Maples and Calder
PO Box 309GT, Ugland House
South Church Street, George Town
Grand Cayman, Cayman Islands
Attn: Dale Crowley

11 LAW AND JURISDICTION

This Agreement shall be governed by and construed in accordance with the laws of the Cayman Islands and the parties hereby submit to the non-exclusive jurisdiction of the Cayman Islands courts.

IN WITNESS WHEREOF the parties hereto have caused this document to be executed on the day and year first before written.

SIGNED for and on behalf of
GEMSTONE CDO VII LTD.
by:

Director

in the presence of:

Witness

SIGNED for and on behalf of
DEUTSCHE BANK
(CAYMAN) LIMITED
by:

Authorised Signatory

Authorised Signatory

in the presence of:

Witness

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Exhibit A
HBK's Exposure to Gemstone VII Notes

Attached is a listing of all of the securities issued by Gemstone VII, along with all of HBK's positions in those securities. This data is presented monthly from September 30, 2006 through December 31, 2007. In the first chart, positions are shown at their face amount (par). In the second chart, HBK's positions at the end of each month are shown at the prices paid by HBK for the positions, except that HBK's exposure under the warehouse arrangement is shown at HBK's maximum loss amount.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1371

GEM7-00000001

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HSK's Exposure to Gemstone VII Notes 1/1

Face Amount Purchased by HSK

Gemstone 7 Notes	Aggregate Face Amount Issued	9/26/2006 Face Amount	10/31/2006 Face Amount	11/30/2006 Face Amount	12/31/2006 Face Amount	1/31/2007 Face Amount	2/28/2007 Face Amount	3/31/2007 Face Amount	4/30/2007 Face Amount	5/31/2007 Face Amount	6/30/2007 Face Amount	7/31/2007 Face Amount	8/31/2007 Face Amount	9/30/2007 Face Amount	10/31/2007 Face Amount	11/30/2007 Face Amount	12/31/2007 Face Amount
GEMST 2007-7A A1A	244,000,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
GEMST 2007-7A A1B1	200,000,000	-	-	-	-	-	-	-	-	-	-	-	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000
GEMST 2007-7A A1B2	200,000,000	-	-	-	-	-	-	200,000,000	200,000,000	200,000,000	200,000,000	200,000,000	200,000,000	200,000,000	200,000,000	200,000,000	200,000,000
GEMST 2007-7A A2	159,000,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
GEMST 2007-7A B	86,900,000	-	-	-	-	-	-	31,900,000	31,900,000	31,900,000	31,900,000	31,900,000	31,900,000	31,900,000	31,900,000	31,900,000	31,900,000
GEMST 2007-7A C	68,300,000	-	-	-	-	-	-	38,300,000	38,300,000	38,300,000	38,300,000	38,300,000	38,300,000	38,300,000	38,300,000	38,300,000	38,300,000
GEMST 2007-7A D	53,100,000	-	-	-	-	-	-	38,100,000	38,100,000	38,100,000	38,100,000	38,100,000	38,100,000	38,100,000	38,100,000	38,100,000	38,100,000
GEMST 2007-7A E	18,700,000	-	-	-	-	-	-	18,700,000	18,700,000	18,700,000	18,700,000	18,700,000	18,700,000	18,700,000	18,700,000	18,700,000	18,700,000
GEMSTONE 7 Pref Shares	58,500,000	-	-	-	-	-	-	58,500,000	58,500,000	58,500,000	59,500,000	58,500,000	58,500,000	58,500,000	58,500,000	58,500,000	58,500,000
GEMSTONE 7 Warehouse	N/A	-	56,250,000	56,250,000	62,500,000	62,500,000	62,500,000	-	-	-	-	-	-	-	-	-	-
Total		-	56,250,000	56,250,000	62,500,000	62,500,000	62,500,000	364,500,000	364,500,000	364,500,000	364,500,000	364,500,000	434,500,000	434,500,000	434,500,000	434,500,000	434,500,000

Amount Purchased by HSK, at Cost

Gemstone 7 Notes	9/26/2006 Purchase Price	10/31/2006 Purchase Price	11/30/2006 Purchase Price	12/31/2006 Purchase Price	1/31/2007 Purchase Price	2/28/2007 Purchase Price	3/31/2007 Purchase Price	4/30/2007 Purchase Price	5/31/2007 Purchase Price	6/30/2007 Purchase Price	7/31/2007 Purchase Price	8/31/2007 Purchase Price	9/30/2007 Purchase Price	10/31/2007 Purchase Price	11/30/2007 Purchase Price	12/31/2007 Purchase Price
GEMST 2007-7A A1A	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
GEMST 2007-7A A1B1	-	-	-	-	-	-	-	-	-	-	-	44,000,000	44,000,000	44,000,000	44,000,000	44,000,000
GEMST 2007-7A A1B2	-	-	-	-	-	-	199,548,707	199,548,707	199,548,707	199,548,707	199,548,707	199,548,707	199,548,707	199,548,707	199,548,707	199,548,707
GEMST 2007-7A A2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
GEMST 2007-7A B	-	-	-	-	-	-	31,777,701	31,777,701	31,777,701	31,777,701	31,777,701	31,777,701	31,777,701	31,777,701	31,777,701	31,777,701
GEMST 2007-7A C	-	-	-	-	-	-	37,684,568	37,684,568	37,684,568	37,684,568	37,684,568	37,684,568	37,684,568	37,684,568	37,684,568	37,684,568
GEMST 2007-7A D	-	-	-	-	-	-	35,082,347	35,082,347	35,082,347	35,082,347	35,082,347	35,082,347	35,082,347	35,082,347	35,082,347	35,082,347
GEMST 2007-7A E	-	-	-	-	-	-	18,700,000	18,700,000	18,700,000	18,700,000	18,700,000	18,700,000	18,700,000	18,700,000	18,700,000	18,700,000
GEMSTONE 7 Pref Shares	-	-	-	-	-	-	31,571,715	31,571,715	31,571,718	31,571,715	31,571,715	31,571,715	31,571,715	31,571,718	31,571,715	31,571,718
GEMSTONE 7 Warehouse	-	-	56,250,000	56,250,000	62,500,000	62,500,000	62,500,000	-	-	-	-	-	-	-	-	-
Total	-	-	56,250,000	56,250,000	62,500,000	62,500,000	62,500,000	364,363,858	364,363,858	364,363,858	364,363,858	364,363,858	399,363,858	399,363,858	399,363,858	399,363,858	399,363,858

Confidential Treatment Requested

GEM7-00000002

Exhibit B
HBK's Exposure to Gemstone VII Collateral

Attached is a listing of the collateral held by Gemstone VII, along with all of HBK's direct positions (outside of the CDO) in those same bonds and in other bonds issued by or dependent on the same ABS issuers.

For example, the Gemstone VII collateral included the M9 tranche of the "AMSI2005_R9" ABS issuance, which is labeled "AMSI2005_R9_M9" on the attached chart. On September 30, 2006, HBK also held (outside of the CDO) $4.1 million of this same tranche of ABS, as well as $8.9 million of the M10 tranche and $5.5 million of the M11 tranche. In addition, HBK held two tranches of a "NIM" security (AQNIM2006_RN9) that was created out of the equity of the AMSI2005_R9 issuance. Accordingly, HBK had direct exposure (outside of the Gemstone VII CDO) to over $26 million of securities issued by or dependent on this one ABS issuer.

The attached data is presented monthly from September 30, 2006 through December 31, 2007. HBK's positions are shown using the following values: (a) for positions held at September 30, 2006, the market value on such date, and (b) for positions purchased thereafter, the purchase price paid by HBK. (The value reflected for some residual ABS positions is very small. These positions are essentially out-of-the-money call options that are embedded in a tranche of ABS bonds.)

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HBK's Exposure to Gemstone VII Collateral

Bonds held by Gemstone VII as collateral	Cash or CDS	Other bonds from same ABS issuers owned directly by HBK	9/30/2006 HBK Position	10/31/2006 HBK Position	11/30/2006 HBK Position	12/31/2006 HBK Position	1/31/2007 HBK Position	2/28/2007 HBK Position	3/31/2007 HBK Position	4/30/2007 HBK Position	5/31/2007 HBK Position	6/30/2007 HBK Position	7/31/2007 HBK Position	8/31/2007 HBK Position	9/30/2007 HBK Position	10/31/2007 HBK Position	11/30/2007 HBK Position	12/31/2007 HBK Position
ABSHE2006_HE1_M7	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
ACE2006_HE1_M10	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
ACE2006_NC1_M10	Cash	ACE2006_NC1_M10	-	-	-	-	-	-	-	-	-	3,177,889	3,177,889	3,177,889	3,177,889	3,177,889	3,177,889	3,177,889
ACE2006_NC1_M9	CDS	ACE2006_NC1_M9cdsA	-	-	-	-	-	8,722,554	8,722,554	8,722,554	8,722,554	8,722,554	8,722,554	8,722,554	8,722,554	8,722,554	8,722,554	8,722,554
		ACE2006_NC1_M9cdsB	-	-	-	-	-	17,445,108	17,445,108	17,445,108	17,445,108	17,445,108	17,445,108	17,445,108	17,445,108	17,445,108	17,445,108	17,445,108
		ACE2006_NC1_M9cdsC	-	-	-	-	-	17,526,585	17,526,585	17,526,585	17,526,585	17,526,585	17,526,585	17,526,585	17,526,585	17,526,585	17,526,585	17,526,585
AMSI2005_R1_M10	Cash	AMSI2005_R1_M10	3,853,786	3,853,786	3,853,786	-	-	-	-	-	-	-	-	-	-	-	-	-
AMSI2005_R1_M9	Cash	ARSI2005_W2_M9cdsA	15,000,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
AMSI2005_R11_M10	Cash	AMSI2005_R11_M10	-	-	-	-	-	-	1,249,220	1,249,220	1,249,220	1,249,220	1,249,220	1,249,220	1,249,220	1,249,220	1,249,220	1,249,220
AMSI2005_R9_M9	Cash	AMSI2005_R9_M9	4,139,063	4,139,063	4,139,063	4,139,063	-	-	-	-	-	-	-	-	-	-	-	-
		AMSI2005_R9_M10	8,896,923	8,896,923	8,896,923	8,896,923	8,896,923	8,896,923	8,896,923	8,896,923	8,896,923	8,896,923	8,896,923	8,896,923	8,896,923	8,896,923	8,896,923	8,896,923
		AMSI2005_R9_M11	5,452,248	5,452,248	5,452,248	5,452,248	5,452,248	5,452,248	5,452,248	5,452,248	5,452,248	5,452,248	5,452,248	5,452,248	5,452,248	5,452,248	5,452,248	5,452,248
		AQNIM2005_RH6_RESID	5,250,000	5,250,000	5,250,000	5,250,000	5,250,000	5,250,000	5,250,000	5,250,000	5,250,000	5,250,000	5,250,000	5,250,000	5,250,000	5,250,000	5,250,000	5,250,000
		AQNIM2005_RH6_S	2,518,211	2,518,211	2,518,211	2,518,211	2,518,211	2,518,211	2,518,211	2,518,211	2,518,211	-	-	-	-	-	-	-
AMIT2006_1_M3	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
ARSI2005_W2_M9	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
ARSI2005_W2_M12	Cash	ARSI2005_W2_M12	11,420,640	11,420,640	11,420,640	11,420,640	-	-	-	-	-	-	-	-	-	-	-	-
ARSI2005_W3_M12	Cash	ARSI2005_W3_M12	8,363,494	8,363,494	8,363,494	8,363,494	-	-	-	-	-	-	-	-	-	-	-	-
ARSI2006_W1_M4	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
BACM2006_6_D	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
BACM2006_6_E	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
BAYC2006_4A_B1	Cash	BAYC2006_4A_B1	-	-	-	-	-	-	-	-	-	-	-	-	-	401,710	717,458	717,458
BAYC2007_1_B1	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
BNL2006_1A_B	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
BSABS2007_HE1_2M10	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
CMLT2006_NC1_M9	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
CMLT2006_NC1_M9a	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
CWL2006_4_B	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
CWL2006_4_Ba	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
CWL_2007_BC1_M5	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DBALT2006_AR4_M8	Cash	DBALT2006_AR4_M8	5,311,670	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
		SHARP2006_AR4N_RESID	-	11,239,997	11,239,997	11,239,997	11,239,997	11,239,997	11,239,997	11,239,997	11,239,997	11,239,997	11,239,997	11,239,997	11,239,997	11,239,997	11,239,997	11,239,997
		SHARP2006_AR4_N3	-	923,700	923,700	923,700	923,700	923,700	923,700	923,700	923,700	923,700	923,700	923,700	923,700	923,700	923,700	923,700
DBALT2006_AR6_M10	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
EULER2007_1A_S	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
FFML2004_FFC_B4	Cash	FFML2004_FFC_B4	2,884,688	2,884,688	2,884,688	2,884,688	-	-	-	-	-	-	-	-	-	-	-	-
		FFML2004_FFC_OC_RESID	12,730,124	12,730,124	12,730,124	12,730,124	12,730,124	12,730,124	12,730,124	12,730,124	12,730,124	12,730,124	12,730,124	12,730,124	12,730,124	12,730,124	12,730,124	12,730,124
		FFML2004_FFC_P_RESID	1,201	1,201	1,201	1,201	1,201	1,201	1,201	1,201	1,201	1,201	1,201	1,201	1,201	1,201	1,201	1,201
FFML2005_FF1_B4	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
FFML2005_FF2_B5	Cash	FFML2005_FF2_B5	2,139,884	2,139,884	-	-	-	-	-	-	-	-	-	-	-	-	-	-
FFML2004_FF7_M5	Cash	FFML2004_FF7_M5	-	-	-	-	-	-	-	-	-	-	-	-	-	1,157,314	1,157,314	1,157,314
FFML2005_FF8_B5	Cash	FFML2005_FF8_B5	15,207,036	15,207,036	15,207,036	6,732,769	-	-	1,615,000	1,615,000	1,615,000	1,615,000	1,615,000	1,615,000	1,615,000	1,615,000	1,615,000	1,615,000
		FFML2005_FF8_C	49	49	49	49	49	49	49	49	49	49	49	49	49	49	49	49
		FFML2005_FF8N_N2	4,209,975	4,209,975	4,209,975	4,209,975	4,209,975	4,209,975	4,209,975	4,209,975	-	-	-	-	-	-	-	-
FFML2006_FF1_M8	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
FFML2006_FF13_B1	Cash	FFML2006_FF13_B1	10,575,062	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
FFML2006_FF13_B2	Cash	FFML2006_FF13_B2	17,954,040	17,954,040	9,481,540	9,481,540	-	-	3,729,668	3,729,668	3,729,668	3,729,668	3,729,668	3,729,668	3,729,668	3,729,668	3,729,668	3,729,668
FFML2006_FF13_M9	CDS	FFML2006_FF13_M9cdsA	-	-	-	-	-	-	-	7,795,000	7,795,000	7,795,000	7,795,000	7,795,000	7,795,000	7,795,000	7,795,000	7,795,000
		FFML2006_FF13_C	75	75	75	75	75	75	75	75	75	75	75	75	75	75	75	75
		FFNT2006_FF13N_N3	-	10,057,051	10,057,051	10,057,051	10,057,051	10,057,051	10,057,051	10,057,051	10,057,051	10,057,051	10,057,051	10,057,051	10,057,051	10,057,051	10,057,051	10,057,051
		FFNT2006_FF13N_RESID	-	18,795,427	18,795,427	18,795,427	18,795,427	18,795,427	18,795,427	18,795,427	18,795,427	18,795,427	18,795,427	18,795,427	18,795,427	18,795,427	18,795,427	18,795,427
FFML2006_FF3_B2	Cash	FFML2006_FF3_B2	2,526,030	2,526,030	-	-	-	-	-	-	-	-	-	-	-	-	-	-
		FFML2006_FF3_C	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
		FFNT2006_FF3_N2	6,313,580	6,313,580	6,313,580	6,313,580	6,313,580	6,313,580	6,313,580	6,313,580	6,313,580	6,313,580	6,313,580	6,313,580	6,313,580	6,313,580	6,313,580	6,313,580
		FFNT2006_FF3_NIM_RSID	13,214,750	13,214,750	13,214,750	13,214,750	13,214,750	13,214,750	13,214,750	13,214,750	13,214,750	13,214,750	13,214,750	13,214,750	13,214,750	13,214,750	13,214,750	13,214,750
FFML2006_FF4_B2	Cash	FFML2006_FF4_B2	1,616,910	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
		FFML2006_FF4_B1cdsA	-	-	-	-	-	-	18,355,000	18,355,000	18,355,000	18,355,000	18,355,000	18,355,000	18,355,000	18,355,000	18,355,000	18,355,000
		FFML2006_FF4_B1cdsB	-	-	-	-	-	-	-	7,950,000	7,950,000	7,950,000	7,950,000	7,950,000	7,950,000	7,950,000	7,950,000	(7,950,000)
		FFML2006_FF4_C	49	49	49	49	49	49	49	49	49	49	49	49	49	49	49	49
		FFNT2006_FF4N_N3	7,791,368	7,791,368	7,791,368	7,791,368	7,791,368	7,791,368	7,791,368	7,791,368	7,791,368	7,791,368	7,791,368	7,791,368	7,791,368	7,791,368	7,791,368	7,791,368
		FFNT2006_FF4N_RES	12,292,000	12,292,000	12,292,000	12,292,000	12,292,000	12,292,000	12,292,000	12,292,000	12,292,000	12,292,000	12,292,000	12,292,000	12,292,000	12,292,000	12,292,000	12,292,000
FHLT2005_A_M9	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
FHLT2005_C_M9	CDS	FHLT2005_C_M9cdsA	5,000,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
FHLT2005_D_B2	Cash		2,517,188	2,517,188	2,517,188	-	-	-	-	-	-	-	-	-	-	-	-	-
FHLT2006_E_M7	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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HBK's Exposure to Gemstone VII Collateral

Bonds held by Gemstone VII as collateral	Cash or CDS	Other bonds from same ABS issuers owned directly by HBK	9/30/2006 HBK Position	10/31/2006 HBK Position	11/30/2006 HBK Position	12/31/2006 HBK Position	1/31/2007 HBK Position	2/28/2007 HBK Position	3/31/2007 HBK Position	4/30/2007 HBK Position	5/31/2007 HBK Position	6/30/2007 HBK Position	7/31/2007 HBK Position	8/31/2007 HBK Position	9/30/2007 HBK Position	10/31/2007 HBK Position	11/30/2007 HBK Position	12/31/2007 HBK Position
GCCFC2007_GG8_F	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
GSAMP2006_FM1_B4	Cash		2,523,750	2,523,750	2,523,750	-	-	-	-	-	-	-	-	-	-	-	-	-
		GSAMP2006_FM1_C	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
		GSAMP2006_FM1N_N3	5,263,336	5,263,336	5,263,336	5,263,336	5,263,336	5,263,336	5,263,336	5,263,336	5,263,336	5,263,336	5,263,336	5,263,336	5,263,336	5,263,336	5,263,336	5,263,336
		GSAMP2006_FM1N_N_RESID	2,851,750	2,851,750	2,851,750	2,851,750	2,851,750	2,851,750	2,851,750	2,851,750	2,851,750	2,851,750	2,851,750	2,851,750	2,851,750	2,851,750	2,851,750	2,851,750
GSAMP2006_FM2_B1	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
GSAMP2006_FM2_B2	Cash		-	8,479,088	8,479,088	-	-	-	-	-	-	-	-	-	-	-	-	-
GSAMP2006_FM2_M9	CDS	GSAMP2006_FM2_M9citeA	-	-	-	40,000,000	40,000,000	40,000,000	40,000,000	40,000,000	40,000,000	40,000,000	40,000,000	40,000,000	40,000,000	40,000,000	40,000,000	40,000,000
		GSAMP2006_FM2_C_RESID	-	49	49	49	49	49	49	49	49	49	49	49	49	49	49	49
		GSAMP2006_FM2N_N3	-	5,292,483	5,292,483	5,292,483	5,292,483	5,292,483	5,292,483	5,292,483	5,292,483	5,292,483	5,292,483	5,292,483	5,292,483	5,292,483	5,292,483	5,292,483
		GSAMP2006_FM2N_RESID	-	1,814,675	1,814,675	1,814,675	1,814,675	1,814,675	1,814,675	1,814,675	1,814,675	1,814,675	1,814,675	1,814,675	1,814,675	1,814,675	1,814,675	1,814,675
GSAMP2006_NC2_B2	Cash		7,309,454	7,309,454	7,309,454	-	-	-	-	-	-	-	-	-	-	-	-	-
GSAMP2006_NC2_M9	CDS	GSAMP2006_NC2_M9citeA	-	-	-	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
GSAMP2006_NC2_M9a	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
GSAMP2006_NC2_M9b	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
		GSAMP2006_NC2_C_RESID	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
		GSAMP2006_NC2N_N3	4,414,274	4,414,274	4,414,274	4,414,274	573,914	3,283,751	3,283,751	3,283,751	3,283,751	3,283,751	3,283,751	3,283,751	3,283,751	3,283,751	3,283,751	3,283,751
		GSAMP2006_NC2N_RESID	12,141,057	12,141,057	12,141,057	12,141,057	12,141,057	12,141,057	12,141,057	12,141,057	12,141,057	12,141,057	12,141,057	12,141,057	12,141,057	12,141,057	12,141,057	12,141,057
GSAMP2007_NC1_B1	Cash	GSAMP2007_NC1_B1	-	-	-	-	-	15,077,829	15,077,829	15,077,829	15,077,829	15,077,829	15,077,829	15,077,829	15,077,829	15,077,829	15,077,829	15,077,829
		GSAMP2007_NC1_M9citeA	-	-	-	-	-	(14,577,968)	(14,577,968)	(14,577,968)	(14,577,968)	(14,577,968)	(14,577,968)	(14,577,968)	(14,577,968)	(14,577,968)	(14,577,968)	(14,577,968)
		GSAMP2007_NC1_B2	-	-	-	-	-	17,163,427	17,163,427	17,163,427	17,163,427	17,163,427	17,163,427	17,163,427	17,163,427	17,163,427	17,163,427	17,163,427
		GSAMP2007_NC1_P_RESID	-	-	-	-	-	49	49	49	-	-	-	-	-	-	-	-
		GSAMP2007_NC1_X_RESID	-	-	-	-	-	38,171,011	38,171,011	38,171,011	-	-	-	-	-	-	-	-
		GSAMP2007_NC1_NIM_RESID	-	-	-	-	-	-	-	-	11,188,717	11,188,717	11,188,717	11,188,717	11,188,717	11,188,717	11,188,717	11,188,717
		GSAMP2007_NC1_N2	-	-	-	-	-	-	-	-	1,637,262	1,637,262	1,637,262	1,637,262	1,637,262	1,637,262	1,637,262	1,637,262
HASC2006_OPT2_M8	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
HASC2006_OPT3_M4	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
HASC2006_OPT3_M4	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
HEAT2005_6_B2	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
HEAT2005_6_B3	Cash	HEAT2005_6_B3	6,414,844	6,414,844	6,414,844	-	-	-	-	-	-	-	-	-	-	-	-	-
HEAT2005_6_B4	Cash	HEAT2005_6_B4	9,363,082	9,363,082	9,363,082	9,363,082	-	-	-	-	-	-	-	-	-	-	-	-
HEAT2005_9_M7	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
		HEAT2005_9_B5	8,828,066	8,828,066	8,828,066	8,828,066	8,828,066	8,828,066	8,828,066	8,828,066	8,828,066	8,828,066	8,828,066	8,828,066	8,828,066	8,828,066	8,828,066	8,828,066
HEAT2005_9_B3	Cash	HEAT2005_9_B3	3,776,484	3,776,484	3,776,484	-	-	-	-	-	-	-	-	-	-	-	-	-
		HEAT2005_9_B3citeA	-	-	-	-	-	18,117,086	18,117,086	18,117,086	18,117,086	18,117,086	13,814,278	13,814,278	13,814,278	13,814,278	13,814,278	13,814,278
		HEAT2005_9_NIMC	1,690,008	1,690,008	1,690,008	1,690,008	1,690,008	1,690,008	1,690,008	1,690,008	1,690,008	1,690,008	1,690,008	1,690,008	1,690,008	1,690,008	1,690,008	1,690,008
		HEAT2005_9_NIMRESID	4,807,500	4,807,500	4,807,500	4,807,500	4,807,500	4,807,500	4,807,500	4,807,500	4,807,500	4,807,500	4,807,500	4,807,500	4,807,500	4,807,500	4,807,500	4,807,500
		HEAT2005_9_B5	2,176,130	2,176,130	2,176,130	2,176,130	2,176,130	2,176,130	2,176,130	2,176,130	2,176,130	2,176,130	2,176,130	2,176,130	2,176,130	2,176,130	2,176,130	2,176,130
HEAT2006_1_M4	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
HEAT2006_3_B3	Cash	HEAT2006_3_B3	11,576,250	11,576,250	11,576,250	11,576,250	-	-	-	-	-	-	-	-	-	-	-	-
		HEAT2006_3_B1citeA	-	-	-	-	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
		HEAT2006_3_B1citeB	-	-	-	-	-	4,660,320	4,660,320	4,660,320	4,660,320	4,660,320	4,660,320	4,660,320	4,660,320	4,660,320	4,660,320	4,660,320
HEAT2006_5_B1	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
HEAT2006_5_B1a	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
HEAT2006_5_B3	Cash	HEAT2006_5_B3	2,114,083	2,114,083	2,114,083	2,114,083	-	-	-	-	-	-	-	-	-	-	-	-
		HEAT2006_5_NIM_RESID	6,692,824	6,692,824	6,692,824	6,692,824	6,692,824	6,692,824	6,692,824	6,692,824	6,692,824	6,692,824	6,692,824	6,692,824	6,692,824	6,692,824	6,692,824	6,692,824
		HEAT2006_5_NIMC	1,771,580	1,771,580	1,771,580	1,771,580	1,771,580	1,771,580	1,771,580	1,771,580	1,771,580	1,771,580	1,771,580	1,771,580	1,771,580	1,771,580	1,771,580	1,771,580
HEAT2006_7_B1	Cash	HEAT2006_7_B1	4,125,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
HEAT2006_7_B1	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
HEAT2006_7_B1a	CDS	HEAT2006_7_B1citeA	-	-	-	-	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
		HEAT2006_7_B1citeB	-	-	-	-	-	8,727,200	8,727,200	8,727,200	8,727,200	8,727,200	8,727,200	8,727,200	8,727,200	8,727,200	8,727,200	8,727,200
		HEAT2006_7_B1citeC	-	-	-	-	-	8,668,742	8,668,742	8,668,742	8,668,742	8,668,742	8,668,742	8,668,742	8,668,742	8,668,742	8,668,742	8,668,742
		HEAT2006_7_B1citeD	-	-	-	-	-	8,727,200	8,727,200	8,727,200	8,727,200	8,727,200	8,727,200	8,727,200	8,727,200	8,727,200	8,727,200	8,727,200
		HEAT2006_7_B1citeE	-	-	-	-	-	8,606,750	8,606,750	8,606,750	8,606,750	8,606,750	8,606,750	8,606,750	8,606,750	8,606,750	8,606,750	8,606,750
HEAT2006_7_B3	Cash	HEAT2006_7_B3	8,865,915	-	8,896,250	8,896,250	-	-	-	-	-	-	-	-	-	-	-	-
HEAT2006_7_M7	Cash	HEAT2006_7_M7	4,125,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
		HEAT2006_7_M8citeA	-	-	-	-	-	14,848,838	14,848,838	14,848,838	14,848,838	14,848,838	14,848,838	14,848,838	14,848,838	14,848,838	14,848,838	14,848,838
		HEAT2006_7_P_RESID	50															
		HEAT2006_7_X_RESID	50,428,217															
		HEAT2006_7_NIM_RESID	-	9,174,415	9,174,415	9,174,415	9,174,415	9,174,415	9,174,415	9,174,415	9,174,415	9,174,415	9,174,415	9,174,415	9,174,415	9,174,415	9,174,415	9,174,415
		HEAT2006_7_NIMB	-	4,256,352	4,256,352	4,256,352	4,256,352	4,256,352	4,256,352	4,256,352	4,256,352	4,256,352	4,256,352	4,256,352	4,256,352	4,256,352	4,256,352	4,256,352
JPMAC2006_CH1_M10	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
JPMAC2006_CH1_M9	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
JPMAC2006_CH2_M4	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
JPMAC2006_FRE1_M9	CDS	JPMAC2006_FRE1_M9citeA	-	-	-	-	-	17,477,180	17,477,180	17,477,180	17,477,180	17,477,180	17,477,180	17,477,180	17,477,180	17,477,180	17,477,180	17,477,180

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HBK's Exposure to Gemstone VII Collateral

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Bonds held by Gemstone VII as collateral	Cash or CDS	Other bonds from same ABS issuers owned directly by HBK	9/30/2006 HBK Position	10/31/2006 HBK Position	11/30/2006 HBK Position	12/31/2006 HBK Position	1/31/2007 HBK Position	2/28/2007 HBK Position	3/31/2007 HBK Position	4/30/2007 HBK Position	5/31/2007 HBK Position	6/30/2007 HBK Position	7/31/2007 HBK Position	8/31/2007 HBK Position	9/30/2007 HBK Position	10/31/2007 HBK Position	11/30/2007 HBK Position	12/31/2007 HBK Position
JPMAC2006_FRE1_M9e	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
		JPMAC2006_FRE1_M11	2,533,341	2,533,341	2,533,341	2,533,341	2,533,341	2,533,341	2,533,341	2,533,341	2,533,341	2,533,341	2,533,341	2,533,341	2,533,341	2,533,341	2,533,341	2,533,341
		JPMAC2006_FRE1_M8cdsA	-	-	-	-	-	14,853,005	14,853,005	14,853,005	14,853,005	14,853,005	14,953,005	14,853,005	14,853,005	14,853,005	14,853,005	14,853,005
JPMAC2006_HE1_M9	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
JPMAC2006_NC1_M9	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
JPMCC2006_LDP9_D	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
JPMCC2006_LDP9_E	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
JPMCC2007_CB18_D	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
LBMLT2004_2_M7	CDS	LBMLT2004_2_M7cdsA	(10,000,000)	(10,000,000)	(10,000,000)	-	-	-	-	-	-	-	-	-	-	-	-	-
LBMLT2004_4_M12	Cash	LBMLT2004_4_M12	11,375,000	5,915,000	5,915,000	5,915,000	-	-	-	-	-	-	-	-	-	-	-	-
		LBMLT2004_4_9	15,657,693	15,657,693	15,657,693	15,657,693	15,657,693	15,657,693	15,657,693	15,657,693	15,657,693	15,657,693	15,657,693	15,657,693	15,657,693	15,657,693	15,657,693	15,657,693
LBMLT2005_1_B1		LBMLT2005_1_B1	7,863,645	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
		LBMLT2005_1_M9cdsB	8,987,972	8,987,972	8,987,972	8,987,972	8,987,972	8,987,972	8,987,972	8,987,972	8,987,972	8,987,972	8,987,972	8,987,972	8,987,972	8,987,972	8,987,972	8,987,972
LBMLT2005_3_M9	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
LBMLT2005_1_M7	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
LBMLT2006_1_M7e	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
LBMLT2006_5_M9	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
LBMLT2006_5_M9b	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
			-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
MABS2006_NC1_M9	CDS	MABS2006_NC1_M9cdsA				20,000,000	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
MABS2006_NC1_M9e	CDS																	
		MNIM2006_C19_N3	5,848,564	5,848,564	5,848,564	5,848,564	5,848,564	5,848,564	5,848,564	5,848,564	5,848,564	5,848,564	5,848,564	5,848,564	5,848,564	5,848,564	5,848,564	5,848,564
MABS2005_NC2_M9	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
MLMI2005_HE1_B3	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
MLMI2006_AHL1_B3	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
MLMI2006_HE1_M4	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
MSAC2006_HE2_B3	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
MSAC2006_HE2_B3e	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
MSAC2006_HE2_M2	Cash	MSAC2006_HE2_M2	-	-	-	-	-	-	-	-	-	-	-	-	-	406,080	406,080	406,080
MSAC2006_HE5_B3	CDS	MSAC2006_HE5_B3cdsA	(9,960,000)	(9,960,000)	(9,960,000)	(9,960,000)	(9,960,000)	(9,960,000)	(9,960,000)	(9,960,000)	(9,960,000)	(9,960,000)	(9,960,000)	(9,960,000)	(9,960,000)	(9,960,000)	(9,960,000)	(9,960,000)
		MSAC2006_HE5_B3cdsB	(9,960,000)	(9,960,000)	(9,960,000)	(9,960,000)	(9,960,000)	(9,960,000)	(9,960,000)	(9,960,000)	(9,960,000)	(9,960,000)	(9,960,000)	(9,960,000)	(9,960,000)	(9,960,000)	(9,960,000)	(9,960,000)
		MSAC2006_HE5_B3cdsC	(4,980,000)	(4,980,000)	(4,980,000)	(4,980,000)	(4,980,000)	(4,980,000)	(4,980,000)	(4,980,000)	(4,980,000)	(4,980,000)	(4,980,000)	(4,980,000)	(4,980,000)	-	-	-
MSAC2006_HE6_M4			-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
MSAC2006_NC1_B2	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
MSAC2006_NC1_B3	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
MSAC2006_NC1_B3e	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
NCSLT2006_3_C	Cash		8,000,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
NCSLT2006_4_C	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
NHELI2006_3_M6	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
OMTS2005_OT1_M3	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
OOML T2006_1_M8	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
OOML T2006_1_M9	CDS	OOML T2006_1_M9cdsA	-	-	-	-	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
OOML T2006_1_M9e	CDS	OOML T2006_1_M9cdsB	-	-	-	-	-	9,335,418	9,335,418	9,335,418	9,335,418	9,335,418	9,335,418	9,335,418	9,335,418	9,335,418	9,335,418	9,335,418
		OOML T2006_1_M9cdsC	-	-	-	-	-	9,356,083	9,356,083	9,356,083	9,356,083	9,356,083	9,356,083	9,356,083	9,356,083	9,356,083	9,356,083	9,356,083
		OOML T2006_1_M9cdsD	-	-	-	-	-	9,335,418	9,335,418	9,335,418	9,335,418	9,335,418	9,335,418	9,335,418	9,335,418	9,335,418	9,335,418	9,335,418
RAMC2006_4_M4	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
RAMC2006_4_M7	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
RAMP2005_RS7_B	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
RASC2005_KS11_M4	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
RASC2005_KS11_M4e	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
RASC2006_EMX2_M4	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
RASC2006_EMX2_M5	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
RASC2006_KS2_M4	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
RASC2006_KS3_M9	CDS	RASC2006_KS3_M9cdsA	-	-	-	-	-	12,780,280	12,780,280	12,780,280	12,780,280	12,780,280	12,780,280	12,780,280	12,780,280	12,780,280	12,780,280	12,780,280
RASC2006_KS3_M9e	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
		SBFT2006_KS3N_Resid	15,711,000	15,711,000	15,711,000	15,711,000	15,711,000	15,711,000	15,711,000	15,711,000	15,711,000	15,711,000	15,711,000	15,711,000	15,711,000	15,711,000	15,711,000	15,711,000
		SBFT2006_KS3N_N3	7,735,000	7,735,000	7,735,000	7,735,000	7,735,000	7,735,000	7,735,000	7,735,000	7,735,000	7,735,000	7,735,000	7,735,000	7,735,000	7,735,000	7,735,000	7,735,000
		RASC2005_KS11_M9cdsB	(9,822,522)	(9,822,522)	(9,822,522)	(9,822,522)	(9,822,522)	(9,822,522)	(9,822,522)	(9,822,522)	(9,822,522)	(9,822,522)	(9,822,522)	(9,822,522)	(9,822,522)	(9,822,522)	(9,822,522)	(9,822,522)
SABR2005_FR4_B3	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
SABR2005_OP1_B4	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
SABR2006_OP1_B3	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
SABR2006_OP1_B3e	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
SABR2006_OP1_B3s	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
SGMS2006_OPT2_M4	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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HBK's Exposure to Gemstone VII Collateral

Bonds held by Gemstone VII as collateral	Cash or CDS	Other bonds from same ABS issuers owned directly by HBK	9/30/2006 HBK Position	10/31/2006 HBK Position	11/30/2006 HBK Position	12/31/2006 HBK Position	1/31/2007 HBK Position	2/28/2007 HBK Position	3/31/2007 HBK Position	4/30/2007 HBK Position	5/31/2007 HBK Position	6/30/2007 HBK Position	7/31/2007 HBK Position	8/31/2007 HBK Position	9/30/2007 HBK Position	10/31/2007 HBK Position	11/30/2007 HBK Position	12/31/2007 HBK Position
SGM37008_GPT2_M7	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
SLMA2008_S_C	Cash	SLMA2008_S_C	19,990,925	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
SURF2006_AS1_B2	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
SURF2006_AS1_B3	CDS	SURF2006_AS1_B3cdsA	-	-	-	-	-	4,751,000	4,751,000	4,751,000	4,751,000	4,751,000	4,751,000	4,751,000	4,751,000	4,751,000	4,751,000	4,751,000
		SURF2006_AS1_B3cdsB	-	-	-	-	-	9,801,600	9,801,600	9,801,600	9,801,600	9,801,600	9,801,600	9,801,600	9,801,600	9,801,600	9,801,600	9,801,600
		SURF2006_AS1_B3cdsC	-	-	-	-	-	9,402,400	9,402,400	9,402,400	9,402,400	9,402,400	9,402,400	9,402,400	9,402,400	9,402,400	9,402,400	9,402,400
		SURF2006_AS1_NIM_RESID	8,842,125	8,842,125	8,842,125	8,842,125	8,842,125	8,842,125	8,842,125	8,842,125	8,842,125	8,842,125	8,842,125	8,842,125	8,842,125	8,842,125	8,842,125	8,842,125
SURF2006_AS3_B1	Cash	SURF2006_AS3_B1	2,550,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
SURF2006_AS3_B3	Cash	SURF2006_AS3_B3	4,250,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
		SURF2006_AS3_C_RESID	14,108,112	14,108,112	14,108,112	14,108,112	14,108,112	14,108,112	14,108,112	-	-	-	-	-	-	-	-	-
		SURF2006_AS3_F_RESID	4,720,000	4,720,000	4,720,000	4,720,000	4,720,000	4,720,000	4,720,000	-	-	-	-	-	-	-	-	-
		SURF2006_AS3N_Resid	-	-	-	-	-	-	-	10,092,085	10,092,085	10,092,085	10,092,085	10,092,085	10,092,085	10,092,085	10,092,085	10,092,085
SVHE2006_EQ1_M10	Cash	SVHE2006_EQ1_M10	5,978,643	-	-	-	-	-	-	-	-	-	-	-	-	-	170,000	170,000
TMTS2006_17HE_M4	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
		TMTS2006_17HE_N	-	-	-	12,800,000	12,800,000	12,800,000	12,800,000	12,800,000	12,800,000	12,800,000	12,800,000	12,800,000	12,800,000	12,800,000	12,800,000	12,800,000
		TMTS2006_17HE_RESID	-	-	-	3,152,249	3,152,249	3,152,249	3,152,249	3,152,249	3,152,249	3,152,249	3,152,249	3,152,249	3,152,249	3,152,249	3,152,249	3,152,249
TMTS2006_6S_A2	Cash	TMTS2006_6S_A2	32,517,644	32,517,644	17,826,047	17,826,047	17,826,047	17,826,047	17,826,047	17,826,047	-	-	-	-	-	-	-	-
TMTS2006_6_1A2	Cash	TMTS2006_6_1A2	124,541,880	109,801,461	109,801,461	109,801,461	109,801,461	109,801,461	109,801,461	109,801,461	109,801,461	109,801,461	109,801,461	109,801,461	109,801,461	67,545,562	67,545,562	67,545,562
WAIN2006_1A_B	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
WFHET2005_3_M11	Cash	WFHET2005_3_M11	7,552,040	7,552,040	7,552,040	-	-	-	-	-	-	-	-	-	-	-	-	-
WFHET2006_1_M11	Cash	WFHET2006_1_M11	3,532,500	3,532,500	3,532,500	-	-	-	-	-	-	-	-	-	-	-	-	-
WFHET2006_1_M9	CDS	WFHET2006_1_M9cdsA	-	-	-	-	-	44,539,625	44,539,625	44,539,625	44,539,625	44,539,625	44,539,625	44,539,625	44,539,625	44,539,625	44,539,625	44,539,625
		GSAMP2006_WF1N_RESID	5,916,998	5,916,998	5,916,998	5,916,998	5,916,998	5,916,998	5,916,998	5,916,998	5,916,998	5,916,998	5,916,998	5,916,998	5,916,998	5,916,998	5,916,998	5,916,998
		GSAMP2006_WF1N_N3	4,787,149	4,787,149	4,787,149	4,787,149	4,787,149	4,787,149	4,787,149	4,787,149	4,787,149	4,787,149	4,787,149	4,787,149	4,787,149	4,787,149	4,787,149	4,787,149
Total			629,296,338	521,238,879	507,302,719	544,021,563	491,294,337	907,710,923	823,659,836	821,843,756	799,771,489	792,846,377	779,646,569	779,646,569	741,370,671	743,235,775	743,821,533	727,931,533

Exhibit C
Summary of HBK's Exposure to Gemstone VII Notes and Collateral

The chart below shows HBK's aggregate exposure to the Gemstone VII collateral, reflecting the sum of (a) exposure to the Gemstone VII notes and Residual Interest (from Exhibit A) and (b) exposure to the Gemstone VII collateral and other bonds issued by the same ABS issuers (from Exhibit B), at the end of each month from September 2006 through December 2007. Exposure is shown using the same values reflected on Exhibit A (second chart) and Exhibit B.

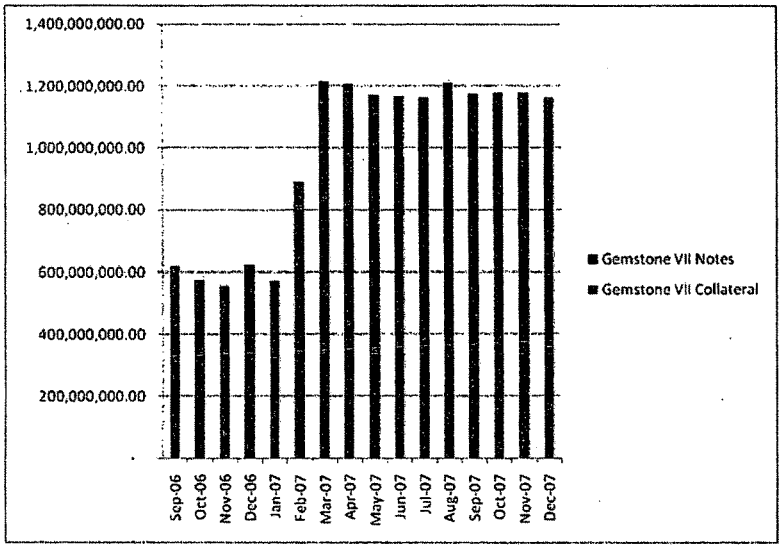

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Exhibit D
Monthly Profits and Losses for HBK's Structured Credit Business Unit

Attached is a chart showing the profits and losses of HBK's Structured Credit business unit on a monthly basis during 2007.

Substantially all of HBK's mortgage-related positions (including mortgages, ABS, CDOs and related index products and derivatives) were held in HBK's Structured Credit business unit. A relatively small amount of long positions in such assets were held in the firm's Treasury and Developed Markets Fixed Income units, but no short positions in such assets were held outside of Structured Credit.

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Total Profit (Loss)
Structured Credit Business Unit
2007

Month	Total Profit (Loss)
Jan	8,162,946.09
Feb	336,665.66
Mar	(50,140,483.30)
Apr	(31,599,011.20)
May	(8,066,517.86)
Jun	(11,855,742.33)
Jul	(66,082,039.71)
Aug	(38,509,888.97)
Sep	(90,157,337.75)
Oct	(74,630,874.25)
Nov	(111,989,924.67)
Dec	(262,705,765.48)
Grand Total for 2007	**(737,237,973.77)**

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66050.901

From: Jordan Milman
Sent: Tuesday, January 9, 2007 04:18:33 PM
To: Jason Lowry
CC: Greg Lippmann; Kevin Jenks
Subject: Re: Corrected Final Approval Request

approved contingent upon first pay defaults getting bought back on the 2 heat bonds

"Jason Lowry" <JLowry@hbk.com>

01/09/2007 11:44 AM

To Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas, Jordan Milman/NewYork/DBNA/DeuBa@DBAmericas
cc "Kevin Jenks" <kjenks@hbk.com>
Subject Corrected Final Approval Request

This is the fast BB list for approval. Could you take a look?

	Notional (000s)		spread	speed		price	
437096AT7	2500	HEAT 2006-5 B3 Mtge	BBB-	Ba2	1050	100ppc	
81.218750000							
43709NAS2	11000	HEAT 2006-7 B3 Mtge	BB+	Ba2	1050	100ppc	
77.121093750							
040104NQ0	14000	ARSI 2005-W2 M12 Mtge	BBB-	NR	910	35cpr	85.566406250

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66050.902

From: Greg Lippmann
Sent: Monday, December 11, 2006 05:37:58 PM
To: Kevin Jenks
Subject: Re: List we want to move to cdo

We want to work together. Can we compromide, call it 1 pt on those bonds and I'm koi on the rest. I think that is fairt.

Sent from my BlackBerry Handheld.

----- Original Message -----
From: "Kevin Jenks" [kjenks@hbk.com]
Sent: 12/11/2006 04:19 PM
To: Greg Lippmann
Subject: RE: List we want to move to cdo

One goes for the other. I need to rethink things as we go forward. Not personal This is where good paper is trading and our month end marks prove it. You can't compare to the crap in the market now. Just look at the aggressive levels on cash bid lists.

From: Greg Lippmann
Sent: Monday, December 11, 2006 3:47 PM
To: Kevin Jenks
Subject: Re: List we want to move to cdo

I appreciate allk you've done and want to continue the non comp. I've tried to work with you and don't think my 'ask' is that onerous.

Sent from my BlackBerry Handheld.

----- Original Message -----
From: "Kevin Jenks" [kjenks@hbk.com]
Sent: 12/11/2006 02:56 PM
To: Greg Lippmann
Subject: RE: List we want to move to cdo

Greg, I have been trying to work with you. Doing trades just with you and not on bid lists. But we play in the higher quality part of the market, I really expected you to approve the list as is. We still have several hundred million of bonds to do in cds form to do. The bonds that I create have more OC are better collateral and better names. They always trade at the tighter end of the market. None are on downgrade watch and are seasoned. and I really don't understand your incentive to be doing this. We can start doing bid lists.

Kevin

From: Greg Lippmann
Sent: Friday, December 08, 2006 4:37 PM
To: Kevin Jenks
Subject: RE: List we want to move to cdo

we have seen the flht 05-d bbb- trade wide....please work with me on this...i am trying to work with you

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66050.903

Greg H. Lippmann
Managing Director
Deutsche Bank Securities Inc.
3rd Floor
60 Wall Street
New York, New York 10005
Phone (212) 250-7730
Fax (212) 797-2201
Mobile (917) 601-1916
greg.lippmann@db.com

"Kevin Jenks" <kjenks@hbk.com>

12/08/2006 04:20 PM

To Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas
cc
Subject RE: List we want to move to cdo

Greg, Fremont overall is really not trading badly just the ones on downgrade watch. Also from the bb list color which I am sure you have seen. Good BB's are trading well. Also we have the majority of the bonds in here that are 05 vintage which is trading very well. So I don't want to lower them by 2 pts. and even yesterdays bb list traded great with the significant widening of baa3 cds

---

From: Greg Lippmann
Sent: Friday, December 08, 2006 4:00 PM
To: Kevin Jenks
Subject: Re: List we want to move to cdo

Ok approved but would like to lower these 2 pts each given recent press on fhlt and the significant widening in the baa3 cds. Is that cool?

35729PMR8[redacted] 3,000.000 [redacted] FHLT 2005-D B2 Mtge[redacted]
[redacted] 775[redacted] 35c [redacted] 86.71875
362334PW8[redacted] 3,000.000 [redacted] GSAMP 06-FM1 B4 Mtge[redacted]
900[redacted] 35c [redacted] 83.69921875
36245DAV2[redacted] 10,217.000 [redacted] GSAMP 06-FM2 B2 Mtge[redacted]
900[redacted] 100ppc [redacted] 81.1171875

Sent from my BlackBerry Handheld.

----- Original Message -----
From: "Kevin Jenks" [kjenks@hbk.com]
Sent: 12/08/2006 03:31 PM
To: Greg Lippmann
Subject: List we want to move to cdo

Please approve

			spread	speed	price	
03072SYH2	4,000.000	AMSI 2005-R1 M10 Mtge	800	35c		92.46875
35729PMR8	3,000.000	FHLT 2005-D B2 Mtge	775	35c		86.71875
362334PW8	3,000.000	GSAMP 06-FM1 B4 Mtge	900	35c		83.69921875
36245DAV2	10,217.000	GSAMP 06-FM2 B2 Mtge	900	100ppc		81.1171875
437084RJ7	4,500.000	HEAT 2005-9 B3 Mtge	850	100ppc		85.46484375
437084QK5	7,500.000	HEAT 2005-8 B3 Mtge	850	100ppc		86.84375
362463AR2	8,815.000	GSAMP 06-NC2 B2 Mtge	800	100ppc		84.69140625

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66050.905

October 25, 2006

Jamiel Akhtar
Managing Director
HBK Investments L.P.
300 Crescent Court Suite 700
Dallas, Texas 75201

Dear Mr. Akhtar:

This letter agreement (this "**Agreement**") confirms the understanding and agreement among (i) Deutsche Bank Securities Inc. (together with its affiliates, "**DBSI**"), (ii) HBK Investments L.P. (the "**Company**"), (iii) HBK Master Fund L.P. and HBK Fixed Income Ltd. (collectively, the "**HBK Funds**", and together with the Company, the "**HBK Entities**"), and (iv) Gemstone CDO VII Ltd., an exempted company formed with limited liability in the Cayman Islands (the "**Issuer**") with respect to the proposed collateralized debt obligation transaction described below:

1. Description of the Transaction

The parties hereto agree, subject to the terms and conditions set forth in this Agreement, that DBSI shall act as structuring agent, sole lead placement agent and sole bookrunner with respect to the following:

(a) the acquisition of structured product securities (the "**Underlying Assets**") and certain swaps, caps, floors or other derivative instruments related thereto (the "**Swaps**" and, together with the Underlying Assets, the "**Collateral**") purchased by the Issuer;

(b) the appointment of the Company as the sole investment manager to the Issuer with respect to the Collateral (in such capacity, the "**Collateral Manager**"), pursuant to a management agreement to be entered into between the Issuer and the Collateral Manager (the "**Management Agreement**"); and

(c) the offering of (i) multiple classes of notes rated investment grade or higher (the "**Investment Grade Notes**") and (ii) one or more classes of notes rated below investment grade (the "**Below Investment Grade Notes**", and together with the Investment Grade Notes, the "**Notes**") and preferred equity (the "**Preferred Equity**" and, together with the Notes, the "**Securities**") to be issued, in each case, by the Issuer, with services provided by DBSI as outlined in paragraph 2 of this Agreement ((a) through (c), collectively, the "**Transaction**").

It is anticipated that the Securities will have an approximate aggregate initial principal and notional balance of up to $750 million (the initial principal and notional balance of the Transaction is the "**Transaction Size**").

2. DBSI's Services

In connection with the Transaction, the parties hereto agree that DBSI shall provide, and, where relevant, the Company will assist DBSI in providing, services including, but not limited to, the following:

This letter does not constitute an offer to underwrite or sell securities. This letter does not present all of the terms, conditions, covenants, representations, warranties and other provisions which will be contained in the definitive legal documentation for the transaction described hereby. Those matters that are not covered or made clear in this letter are subject to mutual agreement of the parties. Any transaction will be subject to, among other things, satisfactory due diligence, final credit approval, documents, filings and opinions acceptable to counsel and the execution of mutually acceptable definitive documentation.

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(a) advising the Issuer and the Company on selection and acquisition of the Underlying Assets;

(b) structuring the Transaction, including evaluation of the effect of various structural alternatives and the potential economic and market impact of such alternatives;

(c) assisting the Issuer and the Company in managing the Transaction process;

(d) advising the Issuer and the Company on the scope of due diligence for the Underlying Assets;

(e) obtaining credit ratings on the Notes from at least two rating agencies (each, a **"Rating Agency"**), which shall consist of at least Standard & Poor's Ratings Services and one of Moody's Investors Service, Inc. and Fitch, Inc.;

(f) assist the Issuer and the Company in obtaining a financial guaranty insurance policy, if applicable, from one of Ambac Assurance Corporation, CIFG Group, Financial Security Assurance Inc., MBIA Insurance Corporation, XL Capital or any other firm mutually agreed by DBSI and the Company (each, a **"Bond Insurer"**);

(g) assisting the Issuer and the Company in evaluating and retaining third party Transaction participants, including any trustees, SPV administrators, all Transaction counsel, printer, accountants and such other parties and Transaction services that may be desired;

(h) developing necessary modeling and collateral tracking tools for the Transaction, with all such materials to be shared with the Company;

(i) assisting the Issuer, the Company and their counsel in coordinating efforts to achieve timely and efficient documentation and closing of the Transaction;

(j) assisting in the preparation of any offering or information memorandum, or other offering document, in respect of the Securities, including any amendments or supplements thereto (collectively, the **"Offering Documents"**) and, in the preparation of supplemental marketing materials, including any confidential information memorandum, a roadshow presentation, cash flow analyses and other summary information in connection with the Transaction (the **"Marketing Materials"**); other than, in either instance, the preparation of any Company Materials, which shall be the responsibility of the Company;

(k) acting as sole lead placement agent and sole bookrunner for an offering of the Securities that is exempt from the registration requirements of the Securities Act of 1933, as amended, pursuant to Section 4(2), Rule 144A and/or Regulation S, where applicable;

(l) subject to internal credit approval, provide a facility to the Issuer to allow the Issuer to purchase Underlying Assets prior to the closing date of the Transaction and allow the Issuer to continue to hold such collateral after the closing date, in each case on terms acceptable to both the Company and DBSI, with certain risks included in such facility

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Confidential Treatment Requested GEM7-00000072

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apportioned between DBSI and the Company, or an affiliate of the Company, on terms to be set forth in the Risk Sharing Agreement to be entered into by the Issuer, the Company or its affiliate, and DBSI;

(m) assisting the Issuer and the Company in designing a hedging strategy if such strategy is deemed necessary or appropriate by the Issuer and the Company in connection with the Transaction and, if acceptable to the Rating Agencies, the Company, DBSI and the Issuer, providing or arranging to provide such hedges; and

(n) if applicable and subject to credit and management approval by DBSI and Deutsche Bank AG London, providing a facility to the Company, or an affiliate of the Company, to allow the Company or such affiliate to purchase 100% of the triple-B rated Notes on the closing date of the Transaction (the terms of such facility are summarized in **Exhibit A**).

3. The Responsibilities of the Issuer and the Company

In connection with DBSI's services as described in paragraph 2, the Issuer and the Company agree, subject to the terms and conditions set forth in this Agreement, as follows:

(a) with respect to the offering of any Securities in connection with this Agreement, the Company shall cause the Issuer to designate DBSI as the lead placement agent and sole bookrunner with respect to the Securities subject to negotiation and execution of appropriate agreements. DBSI will, as the book-running manager, manage the placement process related to the sale of the Securities, with authority to allocate Securities (other than the Securities referenced in clause (b) below) in DBSI's discretion, after consultation with the Company, taking into account the timing of firm orders on each class of Securities;

(b) the Company, or an HBK Entity (as defined herein) or an affiliate thereof, shall purchase on the Closing Date all of the Below Investment Grade Notes and all of the Preferred Equity (such purchasing entity, the **"Securities Purchaser"** and such securities, the **"Subscribed Securities"**); *provided* that DBSI may, with the Company's consent, purchase and place all or a portion of the Preferred Equity. In addition, on or prior to the pricing of the transaction, DBSI will set the coupon on the triple-B rated Notes (in good faith and in its own discretion) within 50 basis points of market indication levels of discount margin ("DM") at the time of issuance with an assumption that such Notes will be issued at par. HBK will have the right of first refusal to purchase the notes if the triple-B rated Notes are issued at a DM of 3.25% or higher;

(c) with respect to the purchase of the Subscribed Securities, the Securities Purchaser, represents and warrants that:

(i) it is a "Qualified Institutional Buyer" as defined in Rule 144A under the Securities Act of 1933, as amended, and is purchasing the Subscribed Securities for its own account and not with a view to distribution,

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(ii) it is a "Qualified Purchaser" as defined in Section 2(a)(51)(A) of the Investment Company Act of 1940 as amended, and

(iii) for the entire time it owns, directly or indirectly, Subscribed Securities, it will not be (i) an employee benefit plan (as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("**ERISA**")), whether or not it is subject to the provisions of Title I of ERISA, (ii) a plan described in Section 4975(e)(1) of the Internal Revenue Code of 1986, as amended, or (iii) an entity whose underlying assets include plan assets by reason of a plan's investment in the entity or otherwise under ERISA;

(d) the Company covenants to execute, or an HBK Entity (as defined herein) or an affiliate thereof shall execute, prior to the Closing Date a customary subscription agreement in relation to the purchase of the Subscribed Securities;

(e) the Company and the Issuer shall prepare, or otherwise cause to be prepared, Offering Documents relating to the Securities containing all required and appropriate disclosures;

(f) on the Closing Date, the Company shall furnish to DBSI (i) a 10b-5 letter in regard to the Company Materials and (ii) other corporate and enforceability opinions of counsel for the Company with respect to the Company's activities, each of which will be dated the Closing Date and in form and substance mutually agreeable (subject to customary provisions) to the Company and DBSI;

(g) with respect to any placement of Securities, the HBK Entities will cooperate fully with DBSI and provide such information and take such actions (including all sales and marketing assistance) as may be reasonably requested by DBSI to effect the issuance and sale of the Securities (including but not limited to telephonic and personal attendance of Company representatives at presentations to investors and the registration or qualification of the Securities in mutually agreed-upon jurisdictions). The Company shall make available to DBSI all information that is directly related to the Transaction concerning the business, assets, operations, financial condition and prospects of the Company that DBSI reasonably requests in connection with the performance of its obligations and the preparation of the Offering Documents and Marketing Materials (the "**Company Materials**"). All such information shall be complete and accurate and not misleading. The Company shall continue to advise DBSI regarding any material developments or matters relating to the Company that occur during the term of DBSI's engagement hereunder; and notwithstanding anything to the contrary contained herein or any oral representations or assurances previously or subsequently made by the parties, DBSI's obligation to place any Securities or to provide any financing for the Underlying Assets to be acquired in anticipation of the closing of the Transaction or for the Subscribed Securities from and after the Closing Date is subject to the execution by the Issuer, the Company and/or DBSI, where applicable, of a final, definitive placement agent agreement, a final, definitive subscription agreement, financing agreements, warehousing agreements and indemnification agreements, as the case may be, containing customary representations, warranties, covenants, indemnification provisions and closing conditions,

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and the satisfaction of each of such conditions, as well as the absence of any events set forth therein which would permit DBSI to terminate such agreement, and also to the satisfaction of each of the following conditions:

(i) the satisfactory completion by DBSI of its due diligence investigation of the Company and the Underlying Assets; and

(ii) there not having occurred (x) any material adverse change or any development involving a prospective material adverse change in the business, operations, or condition (financial or otherwise) of the Company, whether or not arising in the ordinary course of business, or (y) any material adverse change in the Underlying Assets, in each case, which would, in the reasonable judgment of DBSI, make it inadvisable or impracticable to proceed with any offering or financing of the Securities.

4. Compensation

(a) As compensation for the services rendered by DBSI hereunder, the Issuer shall pay from the proceeds of the Transaction on the Closing Date a structuring and placement fee equal to the sum of (i) the product of (a) 0.75% and (b) the aggregate principal balance of Investment Grade Notes issued by the Issuer (the "**Initial Note Balance**") up to $350 million, (ii) the product of (a) 0.65% and (b) the Initial Note Balance in excess of $350 million and (iii) the product of (a) 4.00% and (b) the amount of Preferred Equity purchased and placed by DBSI (the "**Structuring and Placement Fee**").

(b) The parties hereto anticipate that on the Closing Date the Issuer and the Company shall enter into the final Management Agreement whereby the Issuer shall agree to pay the Company a fee equal to 0.30% *per annum* (the "**Collateral Management Fee**"), calculated based on the aggregate principal balance of Underlying Assets as of the first day of the related collection period and payable on each payment date prior to the senior most class of Notes, in accordance with the priority of distributions set forth in the Indenture.

The parties hereto acknowledge that the management fee in the final Management Agreement may differ from the above, with the consent of the Company, in order to result in a marketable transaction for the Securities and such amended management fee shall supersede the above set forth Collateral Management Fee.

5. Matters Relating to DBSI

In connection with any offering of Securities, each of the Issuer and the Company acknowledges that DBSI is engaged in securities trading and brokerage activities, as well as the provision of investment banking and financial advisory services. In the ordinary course of trading and brokerage activities, DBSI and its affiliates may at any time hold long or short positions, and may trade or otherwise effect transactions, for their own account or the accounts of customers, in debt or equity securities of entities that may be involved in the Transaction contemplated hereby. DBSI recognizes its responsibility for compliance with federal securities laws in connection with such activities.

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Each of the Issuer and the Company acknowledges and agrees that DBSI is not, and does not hold itself out to be, an advisor as to legal, tax, accounting or regulatory matters in any jurisdiction. The Issuer and the Company shall consult with their own advisors concerning such matters and shall be responsible for making their own independent investigation and appraisal of the risks, benefits and suitability of the transactions contemplated by this Agreement, and DBSI shall have no responsibility or liability to the Issuer or the Company with respect thereto.

6. Exclusivity

The Company hereby agrees that prior to the earlier to occur of (i) the Closing Date and (ii) the termination of this Agreement in accordance with paragraph 13 below, none of the Company, any of its subsidiaries or any fund controlled by the Company or any such subsidiary will, without the prior written consent of DBSI, market at the same time as the transactions contemplated herein, any collateralized debt obligation transactions the underlying collateral of which consists primarily of asset-backed securities or mortgage-backed securities, including in synthetic form (a "**Similar Transaction**"); *provided* that (i) the Company may market a Similar Transaction at any time if DBSI (or its successor, if any) is no longer pursuing or structuring collateralized debt obligations (any of the foregoing, a "**DBSI Exit**") and (ii) the Company may enter into a transaction to warehouse collateral for a Similar Transaction so long as the marketing for such Similar Transaction does not begin before the Closing Date of the Transaction.

7. Transaction Expenses

The Issuer will pay when due but no later than the Closing Date any costs (all fees, expenses and any sales, use or similar taxes, collectively the "**Costs**") due in connection with the Transaction, including such fees and expenses incurred by all counsel to the Transaction (such fees and expenses to include any disbursements), accountants, trustees, paying agents, listing agents, securities intermediaries, hedge counterparties, the Company (limited to out-of-pocket expenses), the Collateral Manager, DBSI (limited to out-of-pocket expenses), printer, SPV administrators, each Rating Agency, and such other transaction parties approved by both the Company and DBSI. In the event that the Transaction does not close, all Costs shall be borne equally by the Company and DBSI, *provided* that each of the Company and DBSI will pay their respective out-of-pocket expenses. However, if the Transaction does not close due to any DBSI Breach (other than, where relevant, if the Company has failed to assist in the provision of those services or has otherwise frustrated DBSI's ability to perform such services) or any DBSI Exit, then all Costs will be borne by DBSI. If the offering of Notes cannot be completed due to (x) the inability or refusal of the Company without cause to purchase any Subscribed Securities it has committed to purchase pursuant to the terms of the subscription agreement relating thereto or (y) a breach by the Company of its obligations under the Interim Collateral Management Agreement or any other document to be executed prior to the Closing Date in connection with the Transaction, then all Costs shall be borne by the Company. "**DBSI Breach**" shall mean gross negligence, willful misconduct, fraud, criminal conduct, or material breach of DBSI's obligations under this Agreement.

8. Indemnification between the Issuer and DBSI

The Issuer shall:

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(a) indemnify DBSI and each other Indemnified Person (as hereinafter defined) and hold it harmless against any and all losses, claims, damages or liabilities to which DBSI or such other Indemnified Person may become subject (i) arising out of or based upon any untrue statement or alleged untrue statement of a material fact contained in the Offering Documents or in any other written or oral communication provided by or on behalf of the Issuer to any actual or prospective purchaser of the Securities or arising out of or based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading (except information describing DBSI that is provided by DBSI specifically for use in the Offering Documents (the **"DBSI Information"**)) or (ii) arising in any manner out of or in connection with the services or matters which are the subject of this Agreement, including, without limitation, the offer and sale of the Securities; *provided*, that the Issuer shall not be liable under clause (ii) to an Indemnified Person under this paragraph in respect of any loss, claim, damage, liability or expense to the extent that it is finally judicially determined that such loss, claim, damage or liability resulted directly from the gross negligence or willful misconduct of such Indemnified Person in the performance of its services hereunder; and

(b) reimburse DBSI and each other Indemnified Person promptly upon demand for any legal or other expenses reasonably incurred by it in connection with investigating, preparing to defend or defending, providing evidence in or preparing to serve or serving as a witness with respect to, or otherwise relating to any lawsuits, investigations, claims or other proceedings arising in any manner out of or in connection with the rendering of services by DBSI hereunder; *provided*, that in the event a final judicial determination is made to the effect specified in subparagraph (a) above, each Indemnified Person will remit to the Issuer any amounts reimbursed to it under this subparagraph (b).

The Issuer agrees that the indemnification and reimbursement commitments set forth above shall apply if the Company, the Issuer or DBSI is a formal party to any such lawsuits, claims or other proceedings, and that such commitments shall extend upon the terms set forth in this paragraph to any controlling person, affiliate, director, officer, employee or agent of DBSI (each, with DBSI, an **"Indemnified Person"**). The Issuer further agrees that, without DBSI's prior written consent, which consent shall not be unreasonably withheld, it will not enter into any settlement of a lawsuit, claim or other proceeding arising out of the transactions contemplated by this Agreement unless such settlement includes an explicit and unconditional release from the party bringing such lawsuit, claim or other proceeding of all Indemnified Persons. The Issuer shall not be liable under this Agreement on account of any settlement entered into by any Indemnified Person unless the terms thereof have been approved in writing by the Issuer (which approval shall not be unreasonably withheld).

If indemnification is to be sought hereunder by an Indemnified Person, then such Indemnified Person shall promptly notify the Issuer of the commencement of any action or proceeding in respect thereof; *provided*, that the failure so to notify the Issuer shall not relieve the Issuer from any liability that it may have to such Indemnified Person pursuant to this paragraph except to the extent the Issuer has been prejudiced in any material respect by such failure or from any liability that it may have to such Indemnified Person other than pursuant to this paragraph. Notwithstanding the above, following such notification, the Issuer may elect in writing to assume and shall have the right to control the defense of

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such action or proceeding, and, upon such election, it shall not be liable for any legal costs subsequently incurred by such Indemnified Person (other than reasonable costs of investigation and providing evidence) in connection therewith, unless: (i) the Indemnified Person reasonably determines that there may be legal defenses available to it which are different from or in addition to those available to the Issuer; (ii) the Issuer has failed to provide counsel reasonably satisfactory to such Indemnified Person in a timely manner; or (iii) counsel which has been provided by the Issuer reasonably determines that its representation of such Indemnified Person would present it with a conflict of interest. In connection with any one action or proceeding, the Issuer shall not be responsible for the fees and expenses of more than one separate law firm in any one jurisdiction for all Indemnified Persons.

The Issuer and DBSI agree that if any indemnification or reimbursement sought pursuant to this paragraph 8 is judicially determined to be unavailable for a reason other than the gross negligence or willful misconduct of the Indemnified Person, then, whether or not DBSI is the Indemnified Person, the Issuer and DBSI shall contribute to the losses, claims, damages, liabilities and expenses for which such indemnification or reimbursement is held unavailable: (i) in such proportion as is appropriate to reflect the relative benefits to the Issuer on the one hand, and DBSI on the other hand, in connection with the transactions to which such indemnification or reimbursement relates; or (ii) if the allocation provided by clause (i) above is judicially determined not to be permitted, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) but also the relative faults of the Issuer on the one hand, and DBSI on the other hand, as well as any other equitable considerations; *provided*, that in no event shall the amount to be contributed by DBSI pursuant to this paragraph, paragraph 9 and paragraph 10 exceed the amount of the fees actually received by DBSI hereunder.

9. Indemnification between the HBK Funds and DBSI

The HBK Funds shall:

(a) indemnify DBSI and each other Indemnified Person (as defined above) and hold it harmless against any and all losses, claims, damages or liabilities to which DBSI or such other Indemnified Person may become subject (i) arising out of or based upon (x) any untrue statement or alleged untrue statement of a material fact contained in any information regarding the Company provided by the Company (including, among other things, the Company Materials) specifically for use in the Offering Documents or any Marketing Materials or (y) any other information provided by the Company specifically for use in any written materials given to any actual or prospective purchaser of the Securities or arising out of or based upon, in the case of the information described in (x) or (y) above (such information, the **"Offering Materials"**), the omission or alleged omission to state in the Offering Materials a material fact related to the Company required to be stated in the Offering Materials or necessary in order to make the statements in the Offering Materials, in the light of the circumstances under which they were made, not misleading, or (ii) arising out of or in connection with a Collateral Manager Breach (as defined in the Interim Collateral Management Agreement); *provided, however*, that the HBK Funds shall not be liable to an Indemnified Person under this paragraph in respect of any loss, claim, damage, liability or expense to the extent that it is finally judicially determined (or in arbitration) that such loss, claim, damage, liability or expense, resulted directly from the gross negligence, willful

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misconduct, or fraud of such Indemnified Person in the performance of its services hereunder, and

(b) reimburse DBSI and each other Indemnified Person promptly upon demand for any legal or other expenses reasonably incurred by it in connection with investigating, preparing to defend or defending, providing evidence in or preparing to serve or serving as a witness with respect to, or otherwise relating to any lawsuits, investigations, claims or other proceedings arising in any manner out of or in connection with a claim pursuant to subparagraph (a) above; *provided, however*, that the HBK Funds shall not be liable to an Indemnified Person under this paragraph in respect of any loss, claim, damage, liability or expense to the extent that it is finally judicially determined (or in arbitration) that such loss, claim, damage, liability or expense, resulted directly from the gross negligence, willful misconduct, or fraud of such Indemnified Person in the performance of its services hereunder.

The HBK Funds agree that the indemnification and reimbursement commitments set forth above shall apply if either the Company, the Issuer or DBSI is a formal party to any such lawsuits, claims or other proceedings, and that such commitments shall extend upon the terms set forth in this paragraph to any Indemnified Person. The HBK Funds further agree that, without DBSI's prior written consent, which consent shall not be unreasonably withheld, it will not enter into any settlement of a lawsuit, claim or other proceeding arising out of the transactions contemplated by this Agreement unless such settlement includes an explicit and unconditional release from the party bringing such lawsuit, claim or other proceeding of all Indemnified Persons. The HBK Funds shall not be liable under this Agreement on account of any settlement entered into by any Indemnified Person unless the terms thereof have been approved in writing by the HBK Funds (which approval shall not be unreasonably withheld).

If indemnification is to be sought hereunder by an Indemnified Person, then such Indemnified Person shall promptly notify the HBK Funds of the commencement of any action or proceeding in respect thereof; *provided*, that the failure so to notify the HBK Funds shall not relieve the HBK Funds from any liability that it may have to such Indemnified Person pursuant to this paragraph except to the extent the HBK Funds have been prejudiced in any material respect by such failure or from any liability that it may have to such Indemnified Person other than pursuant to this paragraph. Notwithstanding the above, following such notification, the HBK Funds may elect in writing to assume and shall have the right to control the defense of such action or proceeding, and, upon such election, it shall not be liable for any legal costs subsequently incurred by such Indemnified Person (other than reasonable costs of investigation and providing evidence) in connection therewith, unless: (i) the Indemnified Person reasonably determines that there may be legal defenses available to it which are different from or in addition to those available to the HBK Funds; (ii) the HBK Funds have failed to provide counsel reasonably satisfactory to such Indemnified Person in a timely manner; or (iii) counsel which has been provided by the HBK Funds reasonably determines that its representation of such Indemnified Person would present it with a conflict of interest. In connection with any one action or proceeding, the HBK Funds shall not be responsible for the fees and expenses of more than one separate law firm in any one jurisdiction for all Indemnified Persons.

The HBK Funds and DBSI agree that if any indemnification or reimbursement sought pursuant to paragraph 8, paragraph 10 and this paragraph 9 is judicially determined to be unavailable for a reason

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other than the gross negligence or willful misconduct or fraud of the Indemnified Person, then, whether or not DBSI is the Indemnified Person, the HBK Funds and DBSI shall contribute to the losses, claims, damages, liabilities and expenses for which such indemnification or reimbursement is held unavailable: (i) in such proportion as is appropriate to reflect the relative benefits to the HBK Funds on the one hand, and DBSI on the other hand, in connection with the transactions to which such indemnification or reimbursement relates; or (ii) if the allocation provided by clause (i) above is judicially determined not to be permitted, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) but also the relative faults of the HBK Funds on the one hand, and DBSI on the other hand, as well as any other equitable considerations; *provided*, that in no event shall the amount to be contributed by DBSI pursuant to paragraph 8, paragraph 10 and this paragraph 9 exceed the amount of the fees actually received by DBSI hereunder. HBK Fund's aggregate liability with respect to contributions sought pursuant to paragraph 10 and this paragraph 9 shall not exceed an amount equal to (1) the greater of (i) 1.2% of the Transaction Size, subject to a minimum of $6,000,000 or (ii) the aggregate gross amount of all Collateral Management Fees paid to the Company under the Management Agreement from the Closing Date to the date of such contribution (such fees not to include income paid to any HBK Entity or an affiliate thereof, as a result of its holding of any Securities) *minus* (2) the aggregate amount of all contributions, liabilities or damages previously paid by the HBK Funds hereunder.

10. Indemnification between DBSI and the Company

DBSI shall:

(a) indemnify the Company and each controlling person affiliate, director, officer, manager, employee or agent of the Company (each, with the Company, "a **HBK Indemnified Person**") and hold it harmless against any and all losses, claims, damages or liabilities to which the Company or such other HBK Indemnified Person may become subject arising out of or based upon any untrue statement or alleged untrue statement of a material fact contained in the DBSI Information specifically for use in the Offering Documents or based upon the omission or alleged omission to state in the DBSI Information a material fact required to be stated therein or necessary in order to make the statements in the DBSI Information, in the light of the circumstances under which they were made, not misleading; *provided, however*, that DBSI shall not be liable to an HBK Indemnified Person under this paragraph in respect of any loss, claim, damage, liability or expense to the extent that it is finally judicially determined (or in arbitration) that such loss, claim, damage, liability or expense, resulted directly from the gross negligence, willful misconduct, or fraud of such HBK Indemnified Person in the performance of its services hereunder; and

(b) reimburse the Company and each other HBK Indemnified Person promptly upon demand for any legal or other expenses reasonably incurred by it in connection with investigating, preparing to defend or defending, providing evidence in or preparing to serve or serving as a witness with respect to, or otherwise relating to any lawsuits, investigations, claims or other proceedings arising in any manner out of or in connection with a claim pursuant to subparagraph (a) above; *provided, however*, that DBSI shall not be liable to an HBK Indemnified Person under this paragraph in respect of any loss, claim, damage, liability or expense to the extent that it is finally judicially determined (or in arbitration) that such

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loss, claim, damage, liability or expense, resulted directly from the gross negligence, willful misconduct, or fraud of such HBK Indemnified Person in the performance of its services hereunder.

DBSI agrees that the indemnification and reimbursement commitments set forth above shall apply if either the Company, the Issuer or DBSI is a formal party to any such lawsuits, claims or other proceedings, and that such commitments shall extend upon the terms set forth in this paragraph to any HBK Indemnified Person. DBSI further agrees that, without the Company's prior written consent, which consent shall not be unreasonably withheld, it will not enter into any settlement of a lawsuit, claim or other proceeding arising out of the transactions contemplated by this Agreement unless such settlement includes an explicit and unconditional release from the party bringing such lawsuit, claim or other proceeding of all HBK Indemnified Persons. DBSI shall not be liable under this Agreement on account of any settlement entered into by any HBK Indemnified Person unless the terms thereof have been approved in writing by DBSI (which approval shall not be unreasonably withheld).

If indemnification is to be sought hereunder by a HBK Indemnified Person, then such Indemnified Person shall promptly notify DBSI of the commencement of any action or proceeding in respect thereof; *provided*, that the failure so to notify DBSI shall not relieve DBSI from any liability that it may have to such HBK Indemnified Person pursuant to this paragraph except to the extent DBSI has been prejudiced in any material respect by such failure or from any liability that it may have to such Indemnified Person other than pursuant to this paragraph. Notwithstanding the above, following such notification, DBSI may elect in writing to assume and shall have the right to control the defense of such action or proceeding, and, upon such election, it shall not be liable for any legal costs subsequently incurred by such HBK Indemnified Person (other than reasonable costs of investigation and providing evidence) in connection therewith, unless: (i) the HBK Indemnified Person reasonably determines that there may be legal defenses available to it which are different from or in addition to those available to DBSI; (ii) DBSI has failed to provide counsel reasonably satisfactory to such Indemnified Person in a timely manner; or (iii) counsel which has been provided by DBSI reasonably determines that its representation of such HBK Indemnified Person would present it with a conflict of interest. In connection with any one action or proceeding, DBSI shall not be responsible for the fees and expenses of more than one separate law firm in any one jurisdiction for all HBK Indemnified Persons.

The Company and DBSI agree that if any indemnification or reimbursement sought pursuant to this paragraph 10 is judicially determined to be unavailable for a reason other than the gross negligence or willful misconduct of the HBK Indemnified Person, then, whether or not the Company is the HBK Indemnified Person, the HBK Funds and DBSI shall contribute to the losses, claims, damages, liabilities and expenses for which such indemnification or reimbursement is held unavailable: (i) in such proportion as is appropriate to reflect the relative benefits to the Company on the one hand, and DBSI on the other hand, in connection with the transactions to which such indemnification or reimbursement relates; or (ii) if the allocation provided by clause (i) above is judicially determined not to be permitted, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) but also the relative faults of the Company on the one hand, and DBSI on the other hand, as well as any other equitable considerations. Notwithstanding the foregoing, in no event shall DBSI's liability pursuant to the contribution provisions of this Agreement exceed the aggregate amount of fees actually received by DBSI under this Agreement. HBK Fund's aggregate liability with respect to contributions sought pursuant paragraph 9 and this paragraph shall not exceed an amount equal to (1) the greater of (i) 1.2% of

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the Transaction Size, subject to a minimum of $6,000,000 or (ii) the aggregate gross amount of all Collateral Management Fees paid to the Company under the Management Agreement from the Closing Date to the date of such contribution (such fees not to include income paid to any HBK Entity or an affiliate thereof, as a result of its holding of any Securities) *minus* (2) the aggregate amount of all contributions, liabilities or damages previously paid by the HBK Funds hereunder.

11. Confidentiality

Except as contemplated by the terms hereof or as required by applicable law or pursuant to an order entered or subpoena issued by a court of competent jurisdiction, DBSI shall keep confidential all non-public information provided to it by the Company, and shall not disclose such information to any third party, other than such of its employees and advisors as DBSI determines to have a need to know. DBSI shall not use any such non-public information provided to it by the Company except in providing the services contemplated herein.

Except as required by applicable law, or pursuant to an order entered or subpoena issued by a court of competent jurisdiction, any materials and analysis to be provided by DBSI under this Agreement, including the content and results of presentations to and discussions with the Rating Agencies, shall not be disclosed publicly or made available to third parties without the prior written approval of DBSI and the Company, and accordingly such materials and analysis shall not be relied upon by any person or entity other than the Company.

Except as required by applicable law, or pursuant to an order entered or subpoena issued by a court of competent jurisdiction or the Transaction documents, the Company agrees not to disclose to any third party (other than its advisors in connection with this Transaction) the names of any purchasers or prospective purchasers of the Securities and any financial analysis, presentation materials, draft or final legal documents or other information prepared by DBSI or by legal counsel to DBSI without the prior written approval of DBSI.

Notwithstanding the foregoing, the Company may disclose any information referred to in the preceding two paragraphs (i) to the Company's officers, directors, partners, affiliates, employees, agents, consultants and advisors as the Company determines to have a need to know, (ii) that was already in the Company's possession prior to receipt from DBSI, (iii) that is obtained by the Company from a third party who is not otherwise known by the Company to be prohibited from transmitting the information to the Company by a confidentiality agreement, (iv) that is or becomes publicly available other than as a result of disclosure by the Company, or (v) that is independently developed by the Company.

Notwithstanding any other provision in this Agreement, in connection with Treasury Regulation Section 1.6011-4 of the Internal Revenue Code of 1986, as amended, the Company, the Issuer and DBSI hereby agree that each party (and each employee, representative, or other agent of such party) may disclose to any and all persons, without limitation of any kind, the U.S. tax treatment and U.S. tax structure of the Transaction and all materials of any kind (including opinions or other tax analyses) that are provided to such party relating to such U.S. tax treatment and U.S. tax structure, other than any information for which nondisclosure is reasonably necessary in order to comply with applicable securities laws.

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12. Advertising

The Company agrees that DBSI has the right following the closing of the Transaction to place advertisements in financial and other newspapers and journals at its own expense describing its services to the Company hereunder; *provided* that DBSI will submit a copy of any such advertisements to the Company for its prior approval.

13. Termination; Survivability

The term of DBSI's engagement hereunder shall extend from the date hereof until the earlier to occur of (a) the three month anniversary of this Agreement or (b) termination by the Company, or otherwise, of the credit agreement between Deutsche Bank AG, Cayman Islands Branch and the Issuer; *provided* that upon mutual agreement by the Company and DBSI the engagement may be extended for a period of 60 days (the "Term"). Subject to the provisions of paragraphs 4, 5, 6, 7, 8, 9, 10, 11, 12 and 13, which shall survive any termination or expiration of this Agreement, either party may terminate the engagement hereunder at any time by giving the other party at least 10 days prior written notice. If the Company provides notice of its termination of this Agreement to DBSI during the Term or if the credit agreement is terminated, then, if the Company closes a Similar Transaction before the earlier to occur of (a) the date which is 3 months after the effective date of the termination notice from the Company or the date of termination of the credit agreement, as applicable, and (b) the twelve month anniversary of the date of this Agreement, then the Company shall pay DBSI, upon the closing of such Similar Transaction, fees equal to the minimum fees that DBSI would have received had it closed the Transaction, assuming the same tranching and notional transaction size as the Similar Transaction; *provided* that the Company shall not be required to pay such fees if this Agreement is terminated or if the Transaction otherwise fails to close as a result of any DBSI Breach or DBSI Exit.

14. Other Parties

The Company and DBSI each represent to the other that there is no other person or entity that is entitled to a finder's fee or any type of brokerage commission in connection with the Transactions contemplated by this Agreement as a result of any agreement or understanding with it. At DBSI's option, some or all of its services hereunder may be performed by, and some or all of its fees may be paid to, an affiliate or affiliates of DBSI and the term "DBSI" as used in this Agreement shall include such affiliate or affiliates wherever appropriate.

15. Scope of Agreement

Nothing in this Agreement, expressed or implied, is intended to confer or does confer on any person or entity other than the parties hereto or their respective successors and assigns, and to the extent expressly set forth herein, the Indemnified Persons, any rights or remedies under or by reason of this Agreement or as a result of the services to be rendered by DBSI hereunder. The Company further agrees that neither DBSI nor any of its controlling persons, affiliates, directors, officers, employees or agents shall have any liability to the Company for any losses, claims, damages, liabilities or expenses arising out of or relating to this Agreement or the services rendered or to be rendered by DBSI hereunder, unless it is finally judicially determined that such losses, claims, damages, liabilities or expenses directly resulted from the gross negligence, willful misconduct or fraud of DBSI.

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16. Enforceability

The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provisions of this Agreement, which shall remain in full force and effect.

17. Choice of Law; Waiver of Trial by Jury

This Agreement may not be amended or modified except in writing signed by each of the parties. This Agreement shall be construed in accordance with, and this Agreement and all matters arising out of or relating in any way whatsoever to this Agreement (whether in contract, tort or otherwise) shall be governed by, the laws of the State of New York without reference to its conflict of law provisions (other than Section 5-1401 of the New York General Obligations Law). Any right to trial by jury with respect to any lawsuit, claim or other proceeding arising out of or relating to this Agreement or the services to be rendered by DBSI hereunder is expressly and irrevocably waived.

18. No Fiduciary Relationship

The Company further acknowledges and agrees that:

(i) DBSI has been engaged solely to act as structurer and placement agent in connection with the Transaction and that no fiduciary, advisory or agency relationship between the Issuer or the Company, on the one hand, and DBSI, on the other hand, has been created in respect of any of the transactions contemplated by this Agreement, irrespective of whether DBSI has advised or is advising the Issuer or the Company on other matters;

(ii) the pricing of the Securities will be established following discussions and arms-length negotiations with DBSI, and the Company is capable of evaluating and understanding and understands and accepts the terms, risks and conditions of the transactions contemplated by this Agreement;

(iii) it has been advised that DBSI and its affiliates are engaged in a broad range of transactions which may involve interests that differ from those of the Company and that DBSI has no obligation to disclose such interests and transactions to the Company by virtue of any fiduciary, advisory or agency relationship; and

(iv) It waives, to the fullest extent permitted by law, any claims it may have against DBSI for breach of fiduciary duty or alleged breach of fiduciary duty and agrees that DBSI shall have no liability (whether direct or indirect) to the Company in respect of such a fiduciary duty claim or to any person asserting a fiduciary duty claim on behalf of or in right of the Company, including stockholders, employees or creditors of the Company.

This letter does not constitute an offer to underwrite or sell securities. This letter does not present all of the terms, conditions, covenants, representations, warranties and other provisions which will be contained in the definitive legal documentation for the transaction described hereby. Those matters that are not covered or made clear in this letter are subject to mutual agreement of the parties. Any transaction will be subject to, among other things, satisfactory due diligence, final credit approval, documents, filings and opinions acceptable to counsel and the execution of mutually acceptable definitive documentation.

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19. Limited Recourse

The obligations of the Issuer hereunder are limited recourse obligations payable solely from the Collateral and following realization of such Collateral, any claims of the parties hereto shall be extinguished. No recourse shall be had against any officer, director, employee, shareholder or incorporator of the Issuer or their respective successors or assigns for any amounts payable under the obligations of the Issuer hereunder. It is understood that the foregoing provisions shall not (a) prevent recourse to the Collateral for the sums due or to become due under any instrument or agreement which is part of the Collateral or (b) constitute a waiver, release or discharge of any obligations of the Issuer hereunder until such Collateral has been realized, whereupon any outstanding indebtedness or obligation shall be extinguished and hereafter shall not revive. It is further understood that the foregoing provisions shall not limit the right of any person to name the Issuer as a party or defendant in any action or suit or in the exercise of any other remedy pursuant to the obligations of the Issuer hereunder, so long as no judgment in the nature of a deficiency judgment or seeking personal liability shall be asked for or (if obtained) enforced against any such person or entity. This Section shall survive termination of this Agreement.

This letter does not constitute an offer to underwrite or sell securities. This letter does not present all of the terms, conditions, covenants, representations, warranties and other provisions which will be contained in the definitive legal documentation for the transaction described hereby. Those matters that are not covered or made clear in this letter are subject to mutual agreement of the parties. Any transaction will be subject to, among other things, satisfactory due diligence, final credit approval, documents, filings and opinions acceptable to counsel and the execution of mutually acceptable definitive documentation.

Confidential Treatment Requested

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HBK Investments LP
October 26, 2006
Page 16

If the foregoing correctly sets forth the understanding and agreement among DBSI, the Company and the Issuer, please so indicate in the space provided for that purpose below, whereupon this letter shall constitute a binding agreement as of the date first above written.

DEUTSCHE BANK SECURITIES INC.

By: _____
Name: Michael Lamont
Title: Managing Director

By: _____
Name: RICHARD R. KIM
Title: DIRECTOR

AGREED:

HBK INVESTMENTS L.P.

KKR

By: _____
Name: J. Baker Gentry, Jr.
Title: Authorized Signatory

HBK MASTER FUND L.P.

KKR

By: _____
Name: J. Baker Gentry, Jr.
Title: Authorized Signatory

This letter does not constitute an offer to underwrite or sell securities. This letter does not present all of the terms, conditions, covenants, representations, warranties and other provisions which will be contained in the definitive legal documentation for the transaction described hereby. Those matters that are not covered or made clear in this letter are subject to mutual agreement of the parties. Any transaction will be subject to, among other things, satisfactory due diligence, final credit approval, documents, filings and opinions acceptable to counsel and the execution of mutually acceptable definitive documentation.

40713-00080 NY:1596055.5

HBK FIXED INCOME LTD.

By: _____
Name:
Title:

GEMSTONE CDO VII LTD.

By: _____
Name: Alan Corkish
Title: Director

This letter does not constitute an offer to underwrite or sell securities. This letter does not present all of the terms, conditions, covenants, representations, warranties and other provisions which will be contained in the definitive legal documentation for the transaction described hereby. Those matters that are not covered or made clear in this letter are subject to mutual agreement of the parties. Any transaction will be subject to, among other things, satisfactory due diligence, final credit approval, documents, filings and opinions acceptable to counsel and the execution of mutually acceptable definitive documentation.

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HBK FIXED INCOME LTD.

By: _____
Name:
Title: J. Baker Gentry, Jr.
Authorized Signatory

GEMSTONE CDO VII LTD.

By: _____
Name:
Title:

This letter does not constitute an offer to underwrite or sell securities. This letter does not present all of the terms, conditions, covenants, representations, warranties and other provisions which will be contained in the definitive legal documentation for the transaction described hereby. Those matters that are not covered or made clear in this letter are subject to mutual agreement of the parties. Any transaction will be subject to, among other things, satisfactory due diligence, final credit approval, documents, filings and opinions acceptable to counsel and the execution of mutually acceptable definitive documentation.

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EXHIBIT A

Borrower	An affiliate of HBK Investments L.P.("**HBK**"); provided that such affiliate's obligations shall be guaranteed by an HBK Entity
Collateral	Triple-B rated Notes issued by GEMSTONE CDO VII Ltd.
Facility Provider	Deutsche Bank AG London ("**DB London**")
Facility Term	Initial term of 18 months, extendable for additional six months at the option of DB London and such extension is agreed to in writing by the Company.
Interest Rates	LIBOR + 0.45% for triple-B Rated(1) Notes
Advance Rates	75% for triple-B Rated Notes
Funded Amount	Advance Rates applied to lesser of (1) mark-to-market value of the purchased securities and (2) the purchase price of the purchased securities.
Conditions	Agreement by the Company to, *inter alia*, standard financial representations, warrantees and covenants consistent with the existing facilities provided by DBSI.

(1) "Rated" means rated by both Rating Agencies as to principal and market interest for the rating level described.

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EXECUTION COPY

RISK SHARING AGREEMENT

OCTOBER 24, 2006

Among

DEUTSCHE BANK AG CAYMAN ISLANDS BRANCH

DEUTSCHE BANK SECURITIES INC.

And

GEMSTONE CDO VII LTD.

And

HBK MASTER FUND L.P.

And

HBK FIXED INCOME LTD.

And

HBK INVESTMENTS L.P.

ALLEN & OVERY

Allen & Overy LLP

40713-00080 NY:1595961.4

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1376

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RISK SHARING AGREEMENT (the **Agreement**) dated as of October 24, 2006

AMONG

(1) **DEUTSCHE BANK AG CAYMAN ISLANDS BRANCH** (the **Bank**),

(2) **GEMSTONE CDO VII LTD.**, an exempted company incorporated with limited liability under the laws of the Cayman Islands (the **Issuer**),

(3) **DEUTSCHE BANK SECURITIES INC.** (**DBSI**) and HBK Master Fund L.P. (**HBK Master**) and,

(4) **HBK FIXED INCOME LTD.** (**HBK Fixed Income** and, together with HBK Master, the **HBK Entities**) and

(5) **HBK INVESTMENTS L.P.** (**HBK Investments**).

PRELIMINARY STATEMENT

(A) It is expected that, on or before the 120th day after the date of the Credit Agreement (the **CDO Closing Date**), (i) pursuant to an Indenture (the **Indenture**) among the Issuer, Gemstone CDO VII Corp., a corporation to be formed under the laws of Delaware, (the **Co-Issuer**) and a trustee, the Issuer and the Co-Issuer intend to issue one or more Classes of secured notes (the **CDO Notes**) and (ii) pursuant to the Issuer's Articles of Association and the Issuer's corporate resolutions and the Preference Share Paying Agency Agreement, to be dated as of the CDO Closing Date between the Issuer and a paying agent, the Issuer will issue Preference Shares (the **Preference Shares**).

(B) It is expected that on the CDO Closing Date the Aggregate Principal Amount of the CDO Notes together with the aggregate issue price of the Preference Shares will equal up to U.S. $750,000,000.

(C) Pursuant to a Credit Agreement dated as of the date hereof (the **Credit Agreement**), by and among the Issuer, DBSI and the Bank, the Bank will make available to the Issuer certain loans (collectively, the **Loans**), the proceeds of which will be used by the Issuer to acquire certain Underlying Assets in advance of the closing of the CDO Transaction and the issuance of the CDO Notes and the Preference Shares.

(D) Each Underlying Asset and all Eligible Investments will be selected by HBK Investments LP, with the approval of DBSI, pursuant to the Interim Collateral Management Agreement, dated as of the date hereof (the **Interim Collateral Management Agreement**), between the Issuer and HBK Investments L.P. (the **Collateral Manager**).

(E) It is expected that, at the closing of the CDO Transaction, the proceeds from the issuance of the CDO Notes and the Preference Shares will be used to repay in full all amounts owing by the Issuer to the Bank under the Credit Agreement.

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(F) Capitalized terms that are used but not defined herein have the respective meanings specified in the Credit Agreement and, if not defined in the Credit Agreement, in the Interim Collateral Management Agreement.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. MANDATORY LIQUIDATION EVENT

If a Mandatory Liquidation Event occurs, the Bank and the Issuer shall cause all of the Collateral Debt Securities to be sold and liquidated and all of the Long CDS Transactions and interest rate agreements to be terminated or assigned pursuant to this Section 1, the Credit Agreement and the Pledge Agreement.

2. GAINS AND LOSSES

In connection with the risk associated with the Issuer's purchase of Underlying Assets in the manner contemplated by the Credit Agreement, if any of the Underlying Assets are liquidated, terminated or assigned, as applicable, subject to the terms of the Pledge Agreement, the Bank, the HBK Entities, DBSI and the Issuer agree as follows:

(a) On the fifth Business Day after the liquidation of any Underlying Asset purchased by the Issuer,

(i) the HBK Entities shall pay to the Issuer, an amount equal to any Loss that results from such liquidation and any Negative Portfolio Net Carry; *provided* that the aggregate amounts paid by the HBK Entities to the Issuer pursuant to this subsection 2(a)(i) shall not exceed 7.5% of the Commitment (net of the aggregate amounts paid by the Issuer to the HBK Entities pursuant to subsection 2(a)(ii) and (iii)) (the **HBK Aggregate Liability**),

(ii) the Issuer shall pay, an amount equal to any Gain that results from such liquidation, *first*, in reduction of any Loss realized on any Underlying Asset (prior to and without duplication with any amounts paid by the HBK Entities in respect of such Loss hereunder), and *second*, to the HBK Entities, *pro rata* per such HBK Entities as advised by the HBK Entities, and

(iii) The Issuer shall pay, an amount equal to any Positive Net Carry, *first*, in reduction of any Loss realized on any Underlying Asset (prior to and without duplication with any amounts paid by the HBK Entities in respect of such Loss hereunder), and *second*, to the HBK Entities, pro rata per such HBK Entities as advised by the HBK Entities.

(b) On the CDO Closing Date, the Issuer shall pay, an amount equal to the Portfolio Net Carry, *first*, in reduction of any Loss realized on any Underlying Asset (prior to and without duplication with any amounts paid by the HBK Entities in respect of such Loss hereunder), and, *second*, to the HBK Entities, *pro rata* per such HBK Entities as advised by the HBK Entities.

(c) The HBK Entities shall be jointly and severally liable for all obligations under this Agreement.

(d) **Definitions.**

(i) **Loss** means, with respect to the sale of any Collateral Debt Security or the termination or assignment of any Long CDS Transaction, as applicable, the amount by which,

(A) the sum of (I) the amount of proceeds paid by the Issuer in connection with the purchase of such Collateral Debt Security *less* the sum of (a) any accrued interest received which accrued prior to purchase, and (b) the amount of any upfront or similar fees received by the Issuer in connection with the original purchase or funding of such Collateral Debt Security, (II) Hedging Costs, (III) any interest, premium or breakage fees that are due to the Bank in connection with the related Loan, and (IV) the Removal Loss with respect to such Long CDS Transaction *exceeds*

(B) the sum of (I) the amount of proceeds received by the Issuer in connection with the sale of such Collateral Debt Security pursuant to Section 1, net of any reasonable amounts expended by the Issuer in connection with the assignment or other sale of such Collateral Debt Security *less* the portion of the sale price attributable to accrued interest which accrued before the assignment or sale, (II) the aggregate amount of all distributions of principal received or receivable by the Issuer in respect of such Underlying Asset from the issuer thereof in respect of any record date occurring during the Carry Period for such Underlying Asset and (III) the Removal Gain with respect to such Long CDS Transaction; *provided* that Loss shall not include any losses due to DBSI's gross negligence, willful misconduct, fraud, criminal conduct or a material breach of DBSI's obligations under the Loan Documents (any of the foregoing, a **DB Breach**).

(ii) **Gain** means, with respect to the sale of any Collateral Debt Security or the termination or assignment of any Long CDS Transaction, as applicable, the amount by which,

(A) the sum of (I) the amount of proceeds received by the Issuer in connection with the sale of such Collateral Debt Security pursuant to Section 1, net of any reasonable amounts expended by the Issuer in connection with the assignment or other sale of such Collateral Debt Security *less* the portion of the sale price attributable to accrued interest which accrued before the assignment or sale, (II) the aggregate amount of all distributions of principal received or receivable by the Issuer in respect of such Collateral Debt Security from the issuer thereof in respect of any record date occurring during the Carry Period for such Collateral Debt Security, (III) the Removal Gain with respect to such Long CDS Transaction *exceeds*

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(B) the sum of (I) the amount of proceeds paid by the Issuer in connection with the purchase of such Collateral Debt Security less the sum of (a) any accrued interest received which accrued prior to purchase, and (b) the amount of any upfront or similar fees received by the Issuer in connection with the original purchase or funding of such Collateral Debt Security, (II) the Hedging Costs, (III) any interest, premium or breakage fees that are due to the Bank in connection with the related Loan and (IV) the Removal Loss with respect to such Long CDS Transaction. Notwithstanding anything herein to the contrary, Gain on the liquidation of Underlying Assets shall not be distributed until the earlier of (a) the CDO Closing Date and (b) the date that all of the Underlying Assets have been sold, terminated or assigned, as applicable.

(iii) **Hedging Cost** means, with respect to a Collateral Debt Security, fees incurred by the Issuer in connection with any related Hedge Agreement, which amount shall be increased by any loss recognized with respect to such Hedge Agreement or reduced by any gain recognized with respect to such Hedge Agreement. To the extent that gains on a Hedge Agreement exceed the costs of the Hedge Agreement, the Hedging Cost shall be zero and the excess of the gain over the cost of such Hedge Agreement shall be treated as proceeds received by the Issuer in respect of the Collateral Debt Security.

(iv) **Carry Period** means, with respect to any Collateral Debt Security or Long CDS Transaction, the period commencing on (and including) the settlement date on which the Issuer purchases such Collateral Debt Security or the effective date of such Long CDS Transaction hereunder and ending on (and excluding) the earlier of (i) the date of the sale of the Collateral Debt Security or the termination or assignment of the Long CDS Transaction and (ii) the CDO Closing Date.

(v) **Net Carry** means, with respect to any Underlying Asset, (A) the aggregate amount of interest or Fixed Amount that accrues on such Underlying Asset during the Carry Period at such Underlying Asset's interest rate or Fixed Rate, as applicable, *minus* (B) if the Purchase Price Percentage is greater than 100%, (1) the Purchase Price Percentage in respect of such Underlying Asset *minus* 100% *multiplied by* (2) the aggregate amount of all distributions of principal received by the Issuer in respect of such Underlying Asset on or prior to such date of determination, *plus* (C) if the Purchase Price Percentage is less than 100%, (1) 100% *minus* the Purchase Price Percentage in respect of such Underlying Asset *multiplied by* (2) the aggregate amount of all distributions of principal received by the Issuer in respect of such Underlying Asset on or prior to such date of determination, minus (D) the aggregate amount of interest due and payable under the Loan with respect to such Underlying Asset, *minus* (E) with respect to an Underlying Asset bearing a fixed rate of interest, the carrying cost in connection with hedging transactions with respect to such fixed rate Underlying Asset for the period that each hedging transaction remains outstanding arising from any expense premium payment of interest or accrual of interest due as a result of each hedging transaction; *provided* that mark-to-market gains and losses (I) on liquidated Underlying Assets and (II) upon termination of the interest rate hedging transactions shall not be included in the calculation of Net Carry. Notwithstanding anything herein to the contrary, Net Carry shall not

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be distributed until the earlier of (i) the CDO Closing Date and (ii) the date that all of the Underlying Assets have been sold, terminated or assigned.

(vi) If the Net Carry is a positive number, then such amount is a **Positive Net Carry**, and if the Net Carry is a negative number, then such amount is a **Negative Net Carry**. **Positive Portfolio Net Carry** means the net positive sum, if any, of the Net Carry for each Underlying Asset. **Negative Portfolio Net Carry** means the net negative sum, if any, of the Net Carry for each Underlying Asset.

(vii) **Purchase Price Percentage** means, with respect to any (A) Collateral Debt Security as of any date of determination, a percentage equal to (i) the purchase price (total dollar amount paid) thereof divided by (ii) the outstanding principal balance of such Collateral Debt Security as of the date of purchase hereunder by the Issuer and (B) Long CDS Transaction as of any determination date, a percentage equal to (X) if an Upfront Payment was made by the Issuer to the related CDS Counterparty, the sum of (a) 100% and (b) the amount of the upfront payment made (in dollars) divided by the outstanding notional balance related to such Long CDS Transaction as of the date of entering into such Long CDS Transaction hereunder by the Issuer, (Y) if an Upfront Payment was made to the Issuer by the related CDS Counterparty, the excess of (a) 100% over (b) the amount of the upfront payment made (in dollars) divided by the outstanding notional balance related to such Long CDS Transaction as of the date of entering into the Long CDS Transaction hereunder by the Issuer, of (Z) if no Upfront Payment was made by either party, 100%.

(viii) **Removal Loss** means, with respect to the transfer or assignment of a Long CDS Transaction, the amount if positive, calculated by the Calculation Agent equal to the sum of (A) Aggregate Issuer Payments plus (B) the Negative Assignment Amount less (C) the Aggregate Synthetic Security Counterparty Payments, *less* (D) the Positive Assignment Amount.

(ix) **Removal Gain** means, with respect to the transfer or assignment of a Long CDS Transaction, the amount if positive, calculated by the Calculation Agent equal to the sum of (A) the Aggregate Synthetic Security Counterparty Payments *plus* (B) the Positive Assignment Amount *less* (C) Aggregate Issuer Payments *less* (D) Negative Assignment Amount.

(x) With respect to the definition of Removal Gain and Removal Loss:

Aggregate Issuer Payments means with respect to a Long CDS Transaction, the aggregate amount of payments made by the Issuer to the Synthetic Security Counterparty including any Early Termination Amount paid by the Issuer.

Aggregate Synthetic Security Counterparty Payments means with respect to a Long CDS Transaction, the aggregate amount of payments made by the Synthetic Security Counterparty to the Issuer including any Early Termination Amount paid by the Synthetic Security Counterparty but excluding any Fixed Payments.

Assignment Amount means with respect to an assignment or novation by the Issuer of a Long CDS Transaction to a replacement counterparty, the amount of

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payment due with respect to such assignment or novation but for the avoidance of doubt shall not include any Early Termination Amount. If the Assignment Amount is due to the Issuer, such amount is a **Positive Assignment Amount** and if a payment is due to the replacement counterparty such amount is a **Negative Assignment Amount**.

Early Termination Amount shall mean, with respect to the Long CDS Transactions, the amount payable pursuant to Section 6(e)(ii)(2) of the Master Agreement relating to such Long CDS Transaction but for the avoidance of doubt shall not include any Assignment Amount.

3. **ADDITIONAL AGREEMENTS**

It is further agreed that:

(a) Each of the Collateral Manager and DBSI shall use its best efforts to cause the CDO Transaction, to be completed on or prior to the 120th day after the date of the Credit Agreement;

(b) Notwithstanding anything to the contrary contained in the Credit Agreement or the Interim Collateral Management Agreement, neither the Issuer nor the Collateral Manager shall purchase or sell any Collateral Debt Security or enter into or terminate or assign any Long CDS Transaction unless DBSI shall have consented to such purchase or sale or entering into or termination or assignment, as applicable;

(c) Notwithstanding anything to the contrary contained in the Credit Agreement or the Interim Collateral Management Agreement, neither the Collateral Manager nor the HBK Entities shall permit (i) the Credit Agreement to be amended to change any of the portfolio covenants of the Issuer set forth in Section 5 of the Credit Agreement or (ii) the Interim Collateral Management Agreement to be amended to change the portfolio covenants of the Collateral Manager set forth in Section 4 of the Interim Collateral Management Agreement, without the prior written consent of DBSI and the Bank;

(d) Any Losses in excess of the HBK Aggregate Liability or any losses due to a DB Breach shall be borne solely by DBSI; and

(e) The Bank, the Issuer and DBSI hereby covenant and agree that they shall not amend the Credit Agreement without the written consent of the collateral Manager.

4. **CONDITIONS PRECEDENT**

Each of the HBK Entities' obligations hereunder shall be subject to the satisfaction of the following conditions precedent: (a) the Credit Agreement and (b) the Interim Collateral Management Agreement shall, each, have been executed and delivered by the parties thereto.

5. **GOVERNING LAW**

THIS AGREEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH, AND THIS AGREEMENT AND ALL MATTERS ARISING OUT OF OR RELATING IN ANY WAY WHATSOEVER (WHETHER IN CONTRACT, TORT OR OTHERWISE) TO THIS

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AGREEMENT SHALL BE GOVERNED BY, THE LAWS OF THE STATE OF NEW YORK WITHOUT REFERENCE TO ITS CONFLICT OF LAWS PROVISIONS (OTHER THAN SECTION 5-1401 OF THE NEW YORK GENERAL OBLIGATIONS LAW).

6. JURISDICTION

Each of the parties hereto hereby irrevocably submits to the non-exclusive jurisdiction of any New York State or United States federal court sitting in the City and County of New York over any suit, action or proceeding arising out of or relating to this Agreement or the transactions contemplated hereby and irrevocably waives, to the fullest extent it may effectively do so, any objection which it may now or hereafter have to the laying of venue of any such proceeding.

7. TERMINATION

This Agreement will automatically terminate and be of no further force or effect (A) upon the closing of the CDO Transaction and the issuance of the CDO Notes and the Preference Shares or (B) on the fifth day following the final liquidation of all assets held under the Credit Agreement pursuant to paragraph 2.

8. NON-PETITION

The parties hereto, by entering into this Agreement, hereby covenant and agree that they will not at any time institute against the Issuer, or voluntarily join in any institution against the Issuer of, any bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings, or other proceedings under any United States federal or state bankruptcy or similar law of any jurisdiction within or without the United States in connection with any obligations owing to it for a period of one-year (or the then applicable preference period) and one-day following the Maturity Date. This Section shall survive termination of this Agreement.

9. LIMITED RECOURSE

The obligations of the Issuer hereunder are limited recourse obligations payable solely from the Collateral and following realization of such Collateral, any claims of the parties hereto shall be extinguished. No recourse shall be had against any officer, director, employee, shareholder or incorporator of the Issuer or their respective successors or assigns for any amounts payable under the obligations of the Issuer hereunder. It is understood that the foregoing provisions shall not (a) prevent recourse to the Collateral for the sums due or to become due under any instrument or agreement which is part of the Collateral or (b) constitute a waiver, release or discharge of any obligations of the Issuer hereunder until such Collateral has been realized, whereupon any outstanding indebtedness or obligation shall be extinguished and thereafter shall not revive. It is further understood that the foregoing provisions shall not limit the right of any person to name the Issuer as a party or defendant in any action or suit or in the exercise of any other remedy pursuant to the obligations of the Issuer hereunder, so long as no judgment in the nature of a deficiency judgment or seeking personal liability shall be asked for or (if obtained) enforced against any such person or entity. This Section shall survive termination of this Agreement.

[Signature Page Follows]

IN WITNESS WHEREOF, this Risk Sharing Agreement has been entered into as of the date set forth above.

DEUTSCHE BANK AG CAYMAN ISLANDS BRANCH

By: _____
Name: DAVID ROSENBLUM
Title: Vice President

By: _____
Name: Sean McKenna
Title: Director

DEUTSCHE BANK SECURITIES INC.

By: _____
Name: KONSTANTIN FULEV
Title: VICE PRESIDENT

By: _____
Name: RICHARD R. KIM
Title: DIRECTOR

GEMSTONE CDO VII LTD.

By: _____
Name: Alan Corkish
Title: Director

HBK MASTER FUND L.P.

By: _____
Name:
Title:

HBK FIXED INCOME LTD.

By: _____
Name:
Title:

HBK INVESTMENTS L.P.

By: _____
Name:
Title:

[Signature Page to the Risk Sharing Agreement]

40713-00080 NY:1585961.4

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66050.933

IN WITNESS WHEREOF, this Risk Sharing Agreement has been entered into as of the date set forth above.

DEUTSCHE BANK AG CAYMAN ISLANDS BRANCH

By: _____
Name:
Title:

By: _____
Name:
Title:

DEUTSCHE BANK SECURITIES INC.

By: _____
Name:
Title:

By: _____
Name:
Title:

GEMSTONE CDO VII LTD.

By: _____
Name:
Title:

HBK MASTER FUND L.P.

By: _____
Name:
Title: J. Baker Gentry, Jr. Authorized Signatory

HBK FIXED INCOME LTD.

By: _____
Name:
Title: J. Baker Gentry, Jr. Authorized Signatory

HBK INVESTMENTS L.P.

By: _____
Name:
Title: J. Baker Gentry, Jr. Authorized Signatory

[Signature Page to the Risk Sharing Agreement]

40713-00050 NY:1595961.4

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From: Kevin Jenks
Sent: Friday, January 5, 2007 12:28:33 PM
To: Abhayad Kamat
Subject: RE: Gemstone CDO 7 - concentration limits

1. OK
2 I think 3 is fine
3 would like this to 1.25 at least
4 no lets leave it in

-----Original Message-----
From: Abhayad Kamat
Sent: Thursday, January 04, 2007 7:27 PM
To: Kevin Jenks; Marco Lukesch; Rachel Wish
Cc: Sourav Sen; Chehao Lu
Subject: Gemstone CDO 7 - concentration limits

Kevin,
this is what we are thinking of in terms of concentration limits for the revolving deal. let me know what you think. thanks.

1.
Issue concentration limit: 2.5% (5 exceptions up to 3%)

2.
We will try not to have issuer concentration limits but if investors ask, it will be as follows:
- issuer concentration: 2.5% (4 exceptions upto 3% and 1 additional exception upto 4%)
- or HBK to decide if ok to reduce the GSAMP 2006-NC2 to at or below 3%

3.
Issue concentration limits for assets rated below Baa3: 1.0% (with 2 exceptions upto 1.40%) MLMI 2005-HE1 B3 1.36%
FFML 2006-FF13 B1 1.06%
- any chance we can reduce this to below 1.0%?

4.
MLMI 2005-HE1 B3 on negative watch – do you want to move this out of the portfolio – investors might question/resist

Note: this does not include non-ramped assets, so you would need to keep these in compliance for ramping remaining assets.

Abhayad Kamat
Global CDO Group
Deutsche Bank Securities Inc.
60 Wall Street, 19th Floor,
New York, NY 10005-2858
(212) 250-0526 work
(917) [redacted] cell
(732) 578-2890 fax

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1379

GEM7-00001977



"Kevin Jenks" <kjenks@hbk.com>
12/11/2006 02:56 PM

To Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas
cc
bcc
Subject RE: List we want to move to cdo

Greg, I have been trying to work with you. Doing trades just with you and not on bid lists. But we play in the higher quality part of the market, I really expected you to approve the list as is. We still have several hundred million of bonds to do in cds form to do. The bonds that I create have more OC are better collateral and better names. They always trade at the tighter end of the market. None are on downgrade watch and are seasoned. and I really don't understand your incentive to be doing this. We can start doing bid lists.

Kevin

From: Greg Lippmann
Sent: Friday, December 08, 2006 4:37 PM
To: Kevin Jenks
Subject: RE: List we want to move to cdo

we have seen the fiht 05-d bbb- trade wide....please work with me on this...i am trying to work with you

Greg H. Lippmann
Managing Director
Deutsche Bank Securities Inc.
3rd Floor
60 Wall Street
New York, New York 10005
Phone (212) 250-7730
Fax (212) 797-2201
Mobile (917) 601-1916
greg.lippmann@db.com

"Kevin Jenks" <kjenks@hbk.com>
12/08/2006 04:20 PM

To Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas
cc
Subject RE: List we want to move to cdo

Greg, Fremont overall is really not trading badly just the ones on downgrade watch. Also from the bb list color which i am sure you have seen. Good BB's are trading well. Also we have the majority of the bonds in here that are 05 vintage which is trading very well. So I don't want to lower them by 2 pts. and even yesterdays bb list traded great with the significant widening of baa3 cds

---

From: Greg Lippmann
Sent: Friday, December 08, 2006 4:00 PM
To: Kevin Jenks
Subject: Re: List we want to move to cdo

Ok approved but would like to lower these 2 pts each given recent press on fhlt and the

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significant widening in the baa3 cds. Is that cool?

35729PMR8??????? 3,000.000 ???? FHLT 2005-D B2 Mtge???? ??????? 775????? 35c ?? ???????
86.71875
362334PW8??????? 3,000.000 ???? GSAMP 06-FM1 B4 Mtge??? 900????? 35c ?? ???????
83.69921875
36245DAV2??????? 10,217.000 ??? GSAMP 06-FM2 B2 Mtge??? 900????? 100ppc ???????
81.1171875

Sent from my BlackBerry Handheld.

----- Original Message -----
From: "Kevin Jenks" [kjenks@hbk.com]
Sent: 12/08/2006 03:31 PM
To: Greg Lippmann
Subject: List we want to move to cdo

Please approve

			spread	speed	price	
03072SYH2	4,000.000	AMSI 2005-R1 M10 Mtge	800	35c		92.46875
35729PMR8	3,000.000	FHLT 2005-D B2 Mtge		775	35c	86.71875
362334PW8	3,000.000	GSAMP 06-FM1 B4 Mtge	900	35c		83.69921875
36245DAV2	10,217.000	GSAMP 06-FM2 B2 Mtge	900	100ppc		81.1171875
437084RJ7	4,500.000	HEAT 2005-9 B3 Mtge		850	100ppc	85.46484375
437084QK5	7,500.000	HEAT 2005-8 B3 Mtge		850	100ppc	86.84375
362463AR2	8,815.000	GSAMP 06-NC2 B2 Mtge	800	100ppc		84.69140625

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66050.937

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Reginald J. Brown
+1 202 663 6420 (t)
+1 202 663 6363 (f)
reginald.brown@wilmerhale.com

October 12, 2010

By Courier Delivery

Hon. Carl Levin, Chairman
Permanent Subcommittee on Investigations
Committee on Homeland Security and Governmental Affairs
United States Senate
SR-199 Russell Senate Office Building
Washington, DC 20510

Hon. Tom Coburn, Ranking Member
Permanent Subcommittee on Investigations
Committee on Homeland Security and Governmental Affairs
United States Senate
SR-199 Russell Senate Office Building
Washington, DC 20510

Dear Chairman Levin and Ranking Member Coburn:

Today HBK Capital Management ("HBK") is submitting to the Permanent Subcommittee on Investigations ("PSI") a further set of documents in response to the PSI's requests. These documents have been bates labeled GEM7-00006353 through GEM7-00008037, and are being provided electronically on the enclosed CD. A limited amount of potentially privileged information or proprietary or sensitive information that is not related to Gemstone VII has been withheld or redacted. HBK may amend or supplement this production as appropriate based on continuing discussions with your staff and our further review of these issues.

The documents labeled GEM7-00006353 through GEM7-00008029 contain additional custodian emails of Marco Lukesch, Jason Lowry, Jamiel Akhtar, and Kevin Jenks, and supplements our production of September 22, 2010. The documents labeled GEM7-00008030 through GEM7-00008037 provide information regarding the analytic tools that HBK used to evaluate assets that were considered for inclusion in the Gemstone VII CDO. To assist the staff in understanding these tools and how they operated, we also provide the information below.

HBK used a statistically driven mortgage behavior model to help make trading decisions and select assets for inclusion in the Gemstone VII CDO. Three separate database tools were utilized in this process. First, HBK licensed a commercial database called *LP Database*, which contained detailed information and performance history for millions of non-agency mortgages. HBK used this database for three purposes: (i) to obtain data on loan performance history that could be used to develop and calibrate HBK's proprietary model, (ii) to obtain loan performance

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information which could then be inputted into HBK's proprietary model, and (iii) to provide information that could be used as a tool to monitor mortgage bond performance. The *LP Database* was a robust dataset comprising close to 80% of the market, back to the 1996 vintage.

Utilizing the data acquired from the *LP Database*, HBK then developed a proprietary system called the *Loss Model* that forecasted the likelihood of default, prepayment, delinquency, or timely payment for an individual mortgage monthly over a ten-year time horizon. The *Loss Model* made these forecasts based on a series of 50 loan characteristics, including whether the mortgage was a first or second lien mortgage, the type of mortgage (*e.g.*, fixed or ARM), its geographic location, FICO score, loan-to-value ratio, and level of documentation, and projections of home price appreciation and unemployment rates.

Finally, HBK merged the information from the *Loss Model* into a *Bond Evaluation Engine*, which was based on software licensed from Intex Solutions. The *Bond Evaluation Engine* provided information that assisted HBK traders in pricing mortgage bonds and evaluating how the bonds might perform under certain stresses. The purpose of this tool was to assist HBK in predicting how the cash flows and losses from the individual mortgages within a given RMBS bond would be pushed through the liability waterfall of the bond. This portion of the analysis focused on the structure and enhancements of the RMBS and how those structures would contribute to bond performance.

The entire universe of RMBS was inputted into the model every month, with new issues being entered as soon as information became available. This allowed HBK's traders to run a particular RMBS through the model at any time, using a user interface on HBK's internal web site. In addition to the real-time web-based interface, a trader could also generate results from the model by sending an email to a particular email address, which would generate an automated response containing model results. We have included an exemplar email request and automated response at GEM7-00008035 through GEM7-00008037. Lastly, we have also included (at GEM7-00008030 through GEM7-00008034) a presentation for investors that was created in December 2006, which was intended to describe and summarize this process by walking through a case study in the analysis of a particular bond.

* * * * *

HBK respectfully requests that its produced documents be maintained confidentially under Rule 16 of the PSI's Rules of Procedure and not be released publicly without a majority vote of the PSI. HBK further asks that the PSI staff provide the undersigned with notice and an

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opportunity to be heard in the event the PSI determines that it will disclose any information from this production or letter to a third party. Such treatment would be consistent with the respect for privileged and confidential information that the Subcommittee has shown in the past.

Please feel free to contact us at (202) 663-6430 should you have any questions.

Sincerely,

/s/ Reginald J. Brown LMO

Reginald J. Brown

Laura Moranchek Hussain

Enclosures

cc: Jon Mosle
Henry Klehm III

Greg
Lippmann/NewYork/DBNA/DeuBa@DBAMERICAS

12/08/2006 04:00 PM

To"Jashin Patel" <jashin.patel@db.com>, "Rocky Kurita" <hiroki.kurita@db.com>
cc
bcc
SubjectFw: Warehouse Approval Request

Another trade with jenks.

Sent from my BlackBerry Handheld.

----- Original Message -----
From: "Kevin Jenks" [kjenks@hbk.com]
Sent: 12/08/2006 03:40 PM
To: Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas
Subject: Re: Warehouse Approval Request

Yes.

----- Original Message -----
From: Greg Lippmann
To: Kevin Jenks
Sent: Fri Dec 08 14:38:52 2006
Subject: Re: Warehouse Approval Request

Done this is in addition to the rasc, yes?

Sent from my BlackBerry Handheld.

----- Original Message -----
From: "Kevin Jenks" [kjenks@hbk.com]
Sent: 12/08/2006 03:29 PM
To: Greg Lippmann
Subject: RE: Warehouse Approval Request

ok then gsamp 069-nc2 m9 at 375 for you at 10m

From: Greg Lippmann
Sent: Friday, December 08, 2006 3:21 PM
To: Kevin Jenks
Subject: RE: Warehouse Approval Request

165 bid for that one...show me something interesting maybe gsamp 06-nc2 m8 275 or m9 375 or some more rasc ks or a heat etc...

Greg H. Lippmann
Managing Director

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1386

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Deutsche Bank Securities Inc.
3rd Floor
60 Wall Street
New York, New York 10005
Phone (212) 250-7730
Fax (212) 797-2201
Mobile (917) 601-1916
greg.lippmann@db.com

"Kevin Jenks" <kjenks@hbk.com>

12/08/2006 02:48 PM

To
Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas
cc

Subject
RE: Warehouse Approval Request

I would not do that to you so I can't do it to Barclays. Here is another bond

55275BAP2 MABS 06-NC2 M9 Baa2 BBB-

From: Greg Lippmann
Sent: Friday, December 08, 2006 2:34 PM
To: Kevin Jenks
Subject: RE: Warehouse Approval Request

i dont doubt anythin you are saying about the confusion but I would really like to do the m9 with you. We have been trumped in a similar way by other dealers so I would ask you to do the same to barclays here or show me an equivalent bond that we can buy protection at same level

Greg H. Lippmann
Managing Director
Deutsche Bank Securities Inc.
3rd Floor
60 Wall Street
New York, New York 10005
Phone (212) 250-7730
Fax (212) 797-2201
Mobile (917) 601-1916
greg.lippmann@db.com

"Kevin Jenks" <kjenks@hbk.com>

12/08/2006 02:21 PM

To
Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas
cc

Subject
RE: Warehouse Approval Request

That was the confusion, larry told us that rocky did not want to bid because of the level on the M8's. which we only found out after we already did the M9' that is was all bull. The M8 was on a owic, an account with one of our salespeople. So she put in the bid and said we were the best bid on the M8's. After several hours the account did not care there as we had been lead to believe so we killed it. Though we had already traded the M9's. So of course I would have liked to do the trade with you, but as I have said we have already done it. We have many more coming.

Also aside from the cdo, we are doing an entire new index cds strategy that we are being given more risk tolerances for.

From: Greg Lippmann
Sent: Friday, December 08, 2006 2:15 PM
To: Jason Lowry
Cc: Abhayad Kamat; ABS; Chehao Lu; FixedIncome; Hiroki Kurita; Jordan Milman; Lucy Fagan; Mike Li; Rachel Wish; Sourav Sen
Subject: RE: Warehouse Approval Request

no that qwas on the Baa2...we would like to book this trade...I think the confusion was due to kevin telling rocky that he was seeing 300 on the baa2....please do this trade with us

Greg H. Lippmann
Managing Director
Deutsche Bank Securities Inc.
3rd Floor
60 Wall Street
New York, New York 10005
Phone (212) 250-7730
Fax (212) 797-2201
Mobile (917) 601-1916
greg.lippmann@db.com

"Jason Lowry" <JLowry@hbk.com>

12/08/2006 02:10 PM

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To
Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas
cc
Abhayad Kamat/NewYork/DBNA/DeuBa@DBAmericas, "ABS" <ABS@hbk.com>, Chehao Lu/NewYork/DBNA/DeuBa@DBAmericas, "FixedIncome" <FixedIncome@hbk.com>, Hiroki Kurita/NewYork/DBNA/DeuBa@DBAmericas, Jordan Milman/NewYork/DBNA/DeuBa@DBAmericas, Lucy Fagan/db/dbcom@DBAmericas, Mike Li/db/dbcom@DBAmericas, "Rachel Wish" <RWish@hbk.com>, Sourav Sen/NewYork/DBNA/DeuBa@DBAmericas
Subject
RE: Warehouse Approval Request

Rocky told Larry that he would prefer to pass.

From: Greg Lippmann
Sent: Friday, December 08, 2006 2:09 PM
To: Jason Lowry
Cc: Abhayad Kamat; ABS; Chehao Lu; FixedIncome; Hiroki Kurita; Jordan Milman; Lucy Fagan; Mike Li; Rachel Wish; Sourav Sen
Subject: Re: Warehouse Approval Request

we would like this trade for ourselves, we are a BUYER of protection on the bbb- at 365.
We were NOT a buyer of Baa2 at 300.

Greg H. Lippmann
Managing Director
Deutsche Bank Securities Inc.
3rd Floor
60 Wall Street
New York, New York 10005
Phone (212) 250-7730
Fax (212) 797-2201
Mobile (917) 601-1916
greg.lippmann@db.com
"Jason Lowry" <JLowry@hbk.com>

12/08/2006 01:16 PM

To
Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas, Jordan Milman/NewYork/DBNA/DeuBa@DBAmericas, Hiroki Kurita/NewYork/DBNA/DeuBa@DBAmericas, Abhayad Kamat/NewYork/DBNA/DeuBa@DBAmericas, Sourav Sen/NewYork/DBNA/DeuBa@DBAmericas, Chehao Lu/NewYork/DBNA/DeuBa@DBAmericas, Lucy Fagan/db/dbcom@DBAmericas, Sourav

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Footnote Exhibits - Page 1695

Sen/NewYork/DBNA/DeuBa@DBAmericas, "Rachel Wish" <RWish@hbk.com>, "FixedIncome" <FixedIncome@hbk.com>, Mike Li/db/dbcom@DBAmericas, "ABS" <ABS@hbk.com>
cc

Subject
Warehouse Approval Request

Can you approve 15mm of RASC 06-KS3 M9 at 365 with Barclays for the CDO warehouse?

This e-mail may contain confidential and/or privileged information. If you are not the intended recipient (or have received this e-mail in error) please notify the sender immediately and destroy this e-mail. Any unauthorized copying, disclosure or distribution of the material in this e-mail is strictly forbidden.

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This e-mail may contain confidential and/or privileged information. If you are not the intended recipient (or have received this e-mail in error) please notify the sender immediately and destroy this e-mail. Any

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e-mail is strictly forbidden.



GREGLIP@bloomberg.net To JMILMAN@bloomberg.net
cc
02/23/2007 03:53 PM bcc
Subject Re: gemstone AAs

=====Begin Message=====
Message#: 2768
Message Sent: 02/23/2007 15:53:30
From: GREGLIP@bloomberg.net|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
To: JMILMAN@bloomberg.net|JORDAN MILMAN|DEUTSCHE BANK SECURI|1726|328663
Subject: Re: gemstone AAs

fine...
----- Original Message -----
From: JORDAN MILMAN, DEUTSCHE BANK SECURI
At: 2/23 15:34:40

we have so many jv's floating around i'd really like to avoid that. Then we get in to a whole thing about our levels which will be horrible on these. I'd rather just have ilinca show hbk, he loves bonds like this

=====End Message=====

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1386

Confidential Treatment Requested by DBSI

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IMPORTANT NOTICE

Attached please find an electronic copy of the Preliminary Offering Circular (the **"Offering Circular"**), dated February 14, 2007 relating to the offering of certain notes (the **"Notes"**) of GEMSTONE CDO VII LTD. (the **"Issuer"**) and GEMSTONE CDO VII CORP. (the **"Co-Issuer"** and together with the Issuer, the **"Issuers"**).

The Preliminary Offering Circular is highly confidential and does not constitute an offer to any person, other than the recipient, or to the public generally to subscribe for or otherwise acquire any of the securities described therein.

Distribution of this electronic transmission of the Preliminary Offering Circular to any person other than (a) the person receiving this electronic transmission from Deutsche Bank Securities Inc. as Initial Purchaser on behalf of the Issuers, and (b) any person retained to advise the person receiving this electronic transmission with respect to the offering contemplated by the Preliminary Offering Circular (each, an **"Authorized Recipient"**) is unauthorized. Any photocopying, disclosure or alteration of the contents of the Preliminary Offering Circular, and any forwarding of a copy of the Preliminary Offering Circular or any portion thereof by electronic mail or any other means to any person other than an Authorized Recipient, is prohibited. By accepting delivery of this Preliminary Offering Circular, each recipient hereof agrees to the foregoing.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1393

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The information in this Preliminary Offering Circular is not complete and may be changed. This Preliminary Offering Circular is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion dated February 14, 2007

Gemstone CDO VII Ltd.
Gemstone CDO VII Corp.
U.S.$[ ] Class A-1 Floating Rate Notes Due []
U.S.$[ ] Class A-2 Floating Rate Notes Due []
U.S.$[ ] Class B Floating Rate Notes Due []
U.S.$[ ] Class C Floating Rate Deferrable Interest Notes Due []
U.S.$[ ] Class D Floating Rate Deferrable Interest Notes Due []
U.S.$[ ] Class E Floating Rate Deferrable Interest Notes Due []
U.S.$[ ] Preference Shares

Secured by a Portfolio of Asset-Backed Securities

Gemstone CDO VII Ltd., an exempted company with limited liability incorporated under the laws of the Cayman Islands (the "**Issuer**"), and Gemstone CDO VII Corp., a Delaware corporation (the "**Co-Issuer**" and, together with the Issuer, the "**Issuers**"), will issue U.S.$[ ] Class A-1 Floating Rate Notes Due [] (the "**Class A-1 Notes**"), U.S.$[ ] Class A-2 Floating Rate Notes Due [] (the "**Class A-2 Notes**") and, together with the Class A-1 Notes, the "**Class A Notes**"), U.S.$[ ] Class B Floating Rate Notes Due [] (the "**Class B Notes**"), U.S.$[ ] Class C Floating Rate Deferrable Interest Notes Due [] (the "**Class C Notes**"), U.S.$[ ] Class D Floating Rate Deferrable Interest Notes Due [] (the "**Class D Notes**") and U.S.$[ ] Class E Floating Rate Deferrable Interest Notes Due [] (the "**Class E Notes**" and, together with the Class A Notes, Class B Notes, Class C Notes and Class D Notes, the "**Notes**"). The Notes will be issued and secured pursuant to an Indenture dated as of March [ ], 2007 (the "**Indenture**"), among the Issuer, the Co-Issuer and Deutsche Bank Trust Company Americas, as trustee (the "**Trustee**"). The Collateral securing the Notes will be managed by HBK Investments L.P. (together with its affiliated subadvisors, the "**Collateral Manager**"). (*continued on next page*)

It is a condition to the issuance of the Notes that the Class A-1 Notes be rated "Aaa" by Moody's Investors Service, Inc. ("**Moody's**") and "AAA" by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("**Standard & Poor's**" and, together with Moody's, the "**Rating Agencies**"), that the Class A-2 Notes be rated "Aaa" by Moody's and "AAA" by Standard & Poor's, that the Class B Notes be rated at least "Aa2" by Moody's and "AA" by Standard & Poor's, that the Class C Notes be rated at least "A2" by Moody's and "A" by Standard & Poor's, that the Class D Notes be rated at least "Baa2" by Moody's and "BBB" by Standard & Poor's and that the Class E Notes be rated at least "Ba1" by Moody's and "BB+" by Standard & Poor's. The Preference Shares will not be rated.

This document constitutes a prospectus under the Prospectus Directive. The "**Prospectus Directive**" means Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading.

Application will be made to the Irish Financial Services Regulatory Authority, as competent authority under Directive 2003/71/EC, for the prospectus to be approved. Application will be made to the Irish Stock Exchange to admit the Notes to the Official List and trading on its regulated market. Such approval will relate only to Notes which are to be admitted to trading on the regulated market of the Irish Stock Exchange or other regulated markets for the purposes of Directive 93/22/EEC or which are to be offered to the public in any Member State of the European Economic Area. There can be no assurance that such admission will be granted. No application will be made to list the Notes on any other stock exchange.

Investing in the Notes involves risks. See "Risk Factors" starting on page 24.

THE PLEDGED ASSETS OF THE ISSUER ARE THE SOLE SOURCE OF PAYMENTS ON THE NOTES AND THE PREFERENCE SHARES. THE NOTES AND THE PREFERENCE SHARES DO NOT REPRESENT AN INTEREST IN OR OBLIGATIONS OF, AND ARE NOT INSURED OR GUARANTEED BY, THE TRUSTEE, THE COLLATERAL MANAGER, DEUTSCHE BANK SECURITIES INC. ("**DBSI**" OR THE "**INITIAL PURCHASER**"), ANY OF ITS AFFILIATES OR ANY OTHER PERSON OR ENTITY.

THE NOTES AND PREFERENCE SHARES 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. NEITHER THE ISSUER NOR THE CO-ISSUER IS OR WILL BE REGISTERED UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "**INVESTMENT COMPANY ACT**"), IN RELIANCE UPON THE EXCLUSION PROVIDED BY SECTION 3(c)(7) THEREOF. THE NOTES AND PREFERENCE SHARES ARE BEING OFFERED (A) IN THE UNITED STATES IN RELIANCE UPON AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT (i) PROVIDED BY SECTION 4(2) THEREOF TO A LIMITED NUMBER OF INSTITUTIONAL ACCREDITED INVESTORS WITHIN THE MEANING OF RULE 501(a)(1), (2), (3) or (7) UNDER THE SECURITIES ACT, OR (ii) PURSUANT TO RULE 144A UNDER THE SECURITIES ACT ("**RULE 144A**") TO "QUALIFIED INSTITUTIONAL BUYERS" (AS DEFINED IN RULE 144A), AND (B) OUTSIDE THE UNITED STATES TO PERSONS WHO ARE NOT U.S. PERSONS (AS DEFINED IN REGULATION S) IN OFFSHORE TRANSACTIONS IN RELIANCE ON REGULATION S UNDER THE SECURITIES ACT ("**REGULATION S**") AND, IN EACH CASE, IN ACCORDANCE WITH APPLICABLE LAWS. THE NOTES AND PREFERENCE SHARES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO OR FOR THE ACCOUNT OR BENEFIT OF U.S. PERSONS EXCEPT TO QUALIFIED PURCHASERS (WITHIN THE MEANING OF THE INVESTMENT COMPANY ACT AND THE RULES THEREUNDER). EACH PURCHASER OF NOTES OR PREFERENCE SHARES WILL BE DEEMED TO HAVE MADE OR WILL BE REQUIRED TO MAKE CERTAIN ACKNOWLEDGMENTS, REPRESENTATIONS AND AGREEMENTS AS SET FORTH UNDER "TRANSFER RESTRICTIONS." A TRANSFER OF NOTES OR PREFERENCE SHARES (OR ANY INTEREST THEREIN) IS SUBJECT TO CERTAIN RESTRICTIONS DESCRIBED HEREIN, INCLUDING THAT NO SALE, PLEDGE, TRANSFER OR EXCHANGE MAY BE MADE IN A DENOMINATION LESS THAN THE REQUIRED MINIMUM DENOMINATION. SEE "TRANSFER RESTRICTIONS."

The Notes are offered by the Initial Purchaser at varying prices determined in each case at the time of sale, subject to prior sale, when, as and if issued, the approval of certain legal matters by counsel and the satisfaction of certain other conditions. The Initial Purchaser reserves the right to withdraw, cancel or modify such offer and to reject orders in whole or in part. It is expected that the Notes will be delivered on or about March [ ], 2007 (the "**Closing Date**") through the facilities of The Depository Trust Company ("**DTC**"), Euroclear Bank S.A./N.V., and Clearstream Banking, *société anonyme*, against payment therefor in immediately available funds. It is a condition to the issuance of each of the Notes and the Preference Shares that all of the Notes and the Preference Shares be issued concurrently.

DEUTSCHE BANK SECURITIES INC.

The date of this Offering Circular is February [], 2007

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(cover continued)

Concurrently with the issuance of the Notes, the Issuer will issue [] Preference Shares pursuant to the Memorandum and Articles of Association of the Issuer (the **"Issuer Charter"**) and in accordance with a Preference Share Paying Agency Agreement dated as of March [ ], 2007 (the **"Preference Share Paying Agency Agreement"**), among the Issuer, Deutsche Bank Trust Company Americas, acting through an affiliate or agent outside the United States as preference share paying agent and preference share transfer agent (in such capacities, the **"Preference Share Paying Agent"** and the **"Preference Share Transfer Agent"**) and Maples Finance Limited as the share registrar (in such capacity, the **"Share Registrar"**).

Interest on the Notes will be payable in U.S. dollars in arrears on each Payment Date. Payments of principal of and interest on the Notes on any Distribution Date will be made if and to the extent that funds are available on such Distribution Date in accordance with the Priority of Payments set forth herein. Distributions on the Preference Shares will be paid to the extent funds are available in accordance with the Priority of Payments. See "Description of the Notes—Interest," "—Principal" and "—Priority of Payments." The principal of the Notes is payable on each Distribution Date and is required to be paid by their applicable Stated Maturity, unless redeemed or repaid prior thereto. See "Description of the Notes—Principal."

The Notes are subject to redemption under the circumstances described under "Description of the Notes—Mandatory Redemption," "—Auction Call Redemption," "—Optional Redemption", "—Clean-Up Call Redemption" and "—Tax Redemption."

The Notes offered by the Issuers in the United States will be offered in reliance on an exemption from the registration requirements of the Securities Act and will be represented by one or more global notes (**"Restricted Global Notes"**) in fully registered form without interest coupons attached, deposited with, and registered in the name of, DTC (or its nominee). The Notes offered by the Issuers outside the United States will be offered in reliance upon Regulation S under the Securities Act and initially will be represented by one or more temporary global notes (**"Temporary Regulation S Global Notes"**), that will be exchangeable for one or more permanent global notes (**"Permanent Regulation S Global Notes"** and, together with the Temporary Regulation S Global Notes, the **"Regulation S Global Notes"**) in fully registered form without interest coupons attached, deposited with, and registered in the name of, DTC (or its nominee), initially for the accounts of Euroclear Bank S.A./N.V., as operator of the Euroclear system (**"Euroclear"**), and/or Clearstream Banking, *société anonyme* (**"Clearstream"**). Until and including the 40th day after the later of the commencement of the offering and the Closing Date (the **"Distribution Compliance Period"**), beneficial interests in a Regulation S Global Note may be held only through Euroclear or Clearstream. Except in the limited circumstances described herein, certificated notes will not be issued in exchange for beneficial interests in a global note. See "Description of the Notes—Form, Denomination, Registration and Transfer."

NOTWITHSTANDING ANY OTHER EXPRESS OR IMPLIED AGREEMENT TO THE CONTRARY, THE ISSUER, THE COLLATERAL MANAGER AND EACH RECIPIENT HEREOF AGREE THAT EACH OF THEM AND EACH OF THEIR EMPLOYEES, REPRESENTATIVES, AND OTHER AGENTS MAY DISCLOSE, IMMEDIATELY UPON COMMENCEMENT OF DISCUSSIONS, TO ANY AND ALL PERSONS, WITHOUT LIMITATION OF ANY KIND, THE TAX TREATMENT AND TAX STRUCTURE OF THE TRANSACTION AND ALL MATERIALS OF ANY KIND (INCLUDING OPINIONS OR OTHER TAX ANALYSES) THAT ARE PROVIDED TO ANY OF THEM RELATING TO SUCH TAX TREATMENT AND TAX STRUCTURE, EXCEPT WHERE CONFIDENTIALITY IS REASONABLY NECESSARY TO COMPLY WITH U.S. FEDERAL, STATE, OR CAYMAN ISLAND'S SECURITIES LAWS. FOR PURPOSES OF THIS PARAGRAPH, THE TERMS "TAX", "TAX TREATMENT", "TAX STRUCTURE", AND "TAX BENEFIT" ARE DEFINED UNDER TREASURY REGULATION § 1.6011-4(c).

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

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NOTICE TO NEW HAMPSHIRE RESIDENTS

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

NOTICE TO PURCHASERS

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR THE SECURITIES LAWS OF ANY STATE. THE NOTES ARE TO BE PURCHASED FOR INVESTMENT ONLY AND MAY NOT BE SOLD, PLEDGED OR OTHERWISE TRANSFERRED BY AN INVESTOR DIRECTLY OR INDIRECTLY WITHIN THE UNITED STATES OR TO OR FOR THE ACCOUNT OF U.S. PERSONS (AS DEFINED IN REGULATION S) EXCEPT PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT THE SELLER OF ANY NOTES MAY BE RELYING ON THE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY SECTION 4(2) OF THE SECURITIES ACT, RULE 144A OR ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS UNDER THE SECURITIES ACT. FOR CERTAIN RESTRICTIONS ON RESALE, SEE "DESCRIPTION OF THE NOTES—FORM, DENOMINATION, REGISTRATION AND TRANSFER." A TRANSFER OF NOTES IS SUBJECT TO THE RESTRICTIONS DESCRIBED HEREIN, INCLUDING THAT NO SALE, PLEDGE, TRANSFER OR EXCHANGE MAY BE MADE OF A NOTE (1) EXCEPT AS PERMITTED UNDER THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS PURSUANT TO AN EXEMPTION FROM REGISTRATION AS DESCRIBED HEREIN, (2) EXCEPT IN COMPLIANCE WITH THE CERTIFICATION AND OTHER REQUIREMENTS SET FORTH IN THE INDENTURE AND (3) IN A DENOMINATION LESS THAN THE REQUIRED MINIMUM DENOMINATION. THE NOTES ARE SUBJECT TO FURTHER RESTRICTIONS ON TRANSFER. SEE "TRANSFER RESTRICTIONS."

NEITHER THE ISSUERS NOR THE COLLATERAL HAS BEEN REGISTERED UNDER THE INVESTMENT COMPANY ACT BY REASON OF THE EXEMPTION FROM REGISTRATION CONTAINED IN SECTION 3(c)(7) THEREOF. EACH ORIGINAL PURCHASER OF AN INTEREST IN THE NOTES AND EACH SUBSEQUENT TRANSFEREE OF AN INTEREST THEREIN THAT IS A U.S. RESIDENT (WITHIN THE MEANING OF THE INVESTMENT COMPANY ACT) WILL BE DEEMED TO HAVE REPRESENTED AND AGREED THAT IT IS A QUALIFIED PURCHASER AND ALSO WILL BE DEEMED TO HAVE MADE THE REPRESENTATIONS SET FORTH IN "TRANSFER RESTRICTIONS" HEREIN. NO TRANSFER OF NOTES THAT WOULD HAVE THE EFFECT OF REQUIRING EITHER OF THE ISSUERS TO REGISTER AS AN INVESTMENT COMPANY UNDER THE INVESTMENT COMPANY ACT WILL BE PERMITTED. THE PURCHASER OF ANY NOTE AGREES THAT SUCH NOTE IS BEING ACQUIRED FOR ITS OWN ACCOUNT AND NOT WITH A VIEW TO DISTRIBUTION AND MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (A) TO A PERSON

WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER, PURCHASING FOR ITS OWN ACCOUNT, TO WHOM NOTICE IS GIVEN THAT THE RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON THE EXEMPTION FROM SECURITIES ACT REGISTRATION PROVIDED BY RULE 144A OR (B) TO A NON-U.S. PERSON IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 904 OF REGULATION S, IN EACH SUCH CASE IN COMPLIANCE WITH THE INDENTURE AND ALL APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION. ANY TRANSFER OF A RESTRICTED DEFINITIVE NOTE OR A REGULATION S DEFINITIVE NOTE MAY BE EFFECTED ONLY ON THE NOTE REGISTER MAINTAINED BY THE NOTE REGISTRAR PURSUANT TO THE INDENTURE. ANY TRANSFER OF AN INTEREST IN A RESTRICTED GLOBAL NOTE OR A REGULATION S GLOBAL NOTE WILL BE SHOWN ON, AND TRANSFERS THEREOF WILL BE EFFECTED ONLY THROUGH, RECORDS MAINTAINED BY DTC AND ITS DIRECT AND INDIRECT PARTICIPANTS (INCLUDING, IN THE CASE OF REGULATION S GLOBAL NOTES, EUROCLEAR AND CLEARSTREAM).

EACH ORIGINAL PURCHASER AND TRANSFEREE WILL BE DEEMED TO REPRESENT AND WARRANT) THAT EITHER (A) IT IS NOT AN "EMPLOYEE BENEFIT PLAN" AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("**ERISA**") THAT IS SUBJECT TO TITLE I OF ERISA, A PLAN DESCRIBED IN SECTION 4975(e)(1) OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "**CODE**") THAT IS SUBJECT TO SECTION 4975 OF THE CODE, A GOVERNMENTAL OR CHURCH PLAN WHICH IS SUBJECT TO ANY U.S. FEDERAL, STATE OR LOCAL LAW THAT IS SIMILAR TO THE PROHIBITED TRANSACTION PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE, OR AN ENTITY WHICH IS DEEMED TO HOLD THE ASSETS OF ANY SUCH PLAN PURSUANT TO 29 C.F.R. SECTION 2510.3-101, AS MODIFIED BY SECTION 3(42) OF ERISA, OR OTHERWISE, OR (B) ITS PURCHASE AND OWNERSHIP OF SUCH NOTE WILL NOT RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF A GOVERNMENTAL OR CHURCH PLAN, A NON-EXEMPT VIOLATION OF ANY SUCH SIMILAR U.S. FEDERAL, STATE OR LOCAL LAW).

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

This Offering Circular has been prepared by the Issuers solely for use in connection with the offering described herein of the Notes and the Preference Shares (the "**Offering**") and for listing purposes. The Issuers accept responsibility for the information contained in this document (except as provided below). To the best knowledge and belief of the Issuers, the information contained in this document (except in respect of the information appearing in the Section (i) "The Collateral Manager" as to which the Collateral Manager accepts sole responsibility, (ii) "Description of the Initial Investment Agreement—The Initial Investment Agreement Provider" as to which the Initial Investment Agreement Provider accepts sole responsibility, (iii) "Deutsche Bank Aktiengesellschaft" as to which the First Synthetic Security Counterparty accepts sole responsibility and (iv) "Plan of Distribution" as to which the Initial Purchaser accept sole responsibility), is in accordance with the facts and does not omit anything likely to affect the import of such information. The Issuers accept responsibility accordingly. The Issuers disclaim any

obligation to update such information and do not intend to do so. Neither the Initial Purchaser nor any of their affiliates makes any representation or warranty as to, has independently verified or assumes any responsibility for, the accuracy or completeness of the information contained herein other than the information appearing in the section "Deutsche Bank Aktiengesellschaft", for which it accepts sole responsibility. Neither the Collateral Manager nor any of its affiliates makes any representation or warranty as to, has independently verified or assumes any responsibility for, the accuracy and completeness of the information contained herein other than the information appearing in the section "The Collateral Manager", for which it accepts sole responsibility. Neither the Initial Investment Agreement Provider nor any of its affiliates makes any representation or warranty as to, has independently verified or assumes any responsibility for, the accuracy and completeness of the information contained herein other than the information appearing in the section "Description of the Initial Investment Agreement—The Initial Investment Agreement Provider", for which it accepts sole responsibility. To the best knowledge and belief of the First Synthetic Security Counterparty, the information contained in the section "Deutsche Bank Aktiengesellschaft" is in accordance with the facts and does not omit anything likely to affect the import of such information. To the best knowledge and belief of the Collateral Manager, the information contained in the section "The Collateral Manager" is in accordance with the facts and does not omit anything likely to affect the import of such information. To the best knowledge and belief of the Initial Investment Agreement Provider, the information contained in the section "Description of the Initial Investment Agreement—The Initial Investment Agreement Provider" is in accordance with the facts and does not omit anything likely to affect the import of such information. Nothing contained in this Offering Circular is or should be relied upon as a promise or representation as to future results or events. The Trustee has not participated in the preparation of this Offering Circular and assumes no responsibility for its contents.

All of the statements in this Offering Circular with respect to the business of the Issuers, and any financial projections or other forecasts, are based on information furnished by the Issuers. See "Forward Looking Statements." None of the Initial Purchaser, the Collateral Manager and their respective affiliates assumes any responsibility for the performance of any obligations of either of the Issuers or any other persons described in this Offering Circular (except that the Collateral Manager is responsible for the performance of its obligations under the Management Agreement) or for the due execution, validity or enforceability of the Notes, instruments or documents delivered in connection with the Notes or for the value or validity of any collateral or security interests pledged in connection therewith.

This Offering Circular contains summaries of certain documents. The summaries do not purport to be complete and are qualified in their entirety by reference to such documents, copies of which will be made available to offerees upon request. Requests and inquiries regarding this Offering Circular or such documents should be directed to DBSI Inc., 60 Wall Street, New York, New York 10005, Attention: Global Markets/CDO Group. Copies of such documents may also be obtained free of charge from the Irish Paying Agent.

The Issuers will make available to any offeree of the Notes, prior to the issuance thereof, the opportunity to ask questions of and to receive answers from the Issuers or a person acting on their behalf concerning the terms and conditions of the Offering, the Issuers or any other relevant matters and to obtain any additional information to the extent the Issuers possess such information or can obtain it without unreasonable expense. The information referred to in this paragraph will also be obtainable at the office of the Irish Paying Agent.

Each Original Purchaser of a Note or Preference Share (or interest therein) offered and sold in the United States will be required (or in certain circumstances deemed) to represent to the Initial Purchaser offering any Note to it that such Original Purchaser (a)(i) is an institutional "accredited investor" within the

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meaning of Rule 501(a)(1), (2), (3) or (7) (an **"Institutional Accredited Investor"**), or (ii) is a qualified institutional buyer as defined in Rule 144A (**"Qualified Institutional Buyer"**) and (b) 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). Each Original Purchaser of the Notes and Preference Shares will also be required to acknowledge or be deemed to acknowledge that the Notes and Preference Shares have not been and will not be registered under the Securities Act and may not be reoffered, resold, pledged or otherwise transferred except (a) (i) to a person whom the seller reasonably believes is both a Qualified Purchaser (as defined below) and 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 registration provided by Rule 144A under the Securities Act or (ii) to a non U.S. Person in an offshore transaction in accordance with Rule 904 of Regulation S, (b) in compliance with the certification (if any) and other requirements specified in the Indenture (or Preference Share Paying Agency Agreement, as applicable) and (c) in accordance with any applicable securities laws of any state of the United States and any other relevant jurisdiction. Each Original Purchaser of a Note that is a U.S. resident (within the meaning of the Investment Company Act) will be required to represent or be deemed to represent that it or the account for which it is purchasing such Notes is a Qualified Purchaser. A **"Qualified Purchaser"** is (i) a "qualified purchaser" within the meaning of the Investment Company Act and the rules thereunder, (ii) a "knowledgeable employee" with respect to the Issuer within the meaning of Rule 3c-5 under the Investment Company Act, or (iii) a company beneficially owned exclusively by one or more "qualified purchasers" and/or "knowledgeable employees" with respect to the Issuer.

The Initial Purchaser currently does not intend to make a market in any Class of Notes or the Preference Shares, and the Initial Purchaser is under no obligation to do so. In the event that the Initial Purchaser commences any market-making, it may discontinue the same at any time. There can be no assurance that a secondary market for any Class of Notes or the Preference Shares will develop, or if a secondary market does develop, that it will provide the holders of such Class of Notes or Preference Shares with liquidity of investment or that it will continue for the life of such Class of Notes or Preference Shares.

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

NONE OF THE ISSUERS, THE COLLATERAL MANAGER, THE INTEREST RATE SWAP COUNTERPARTY (IF ANY), THE SYNTHETIC SECURITY COUNTERPARTY, THE OFFSETTING TRANSACTION COUNTERPARTY, THE INITIAL INVESTMENT AGREEMENT PROVIDER, THE INITIAL PURCHASER AND ITS AFFILIATES MAKES ANY REPRESENTATION TO ANY OFFEREE OR PURCHASER OF NOTES REGARDING THE LEGALITY OF INVESTMENT THEREIN BY SUCH OFFEREE OR PURCHASER UNDER APPLICABLE LEGAL INVESTMENT OR SIMILAR LAWS OR REGULATIONS OR THE PROPER CLASSIFICATION OF SUCH AN INVESTMENT THEREUNDER. THE CONTENTS OF THIS OFFERING CIRCULAR ARE NOT TO BE CONSTRUED AS LEGAL, BUSINESS OR TAX ADVICE. EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN ATTORNEY, BUSINESS ADVISOR AND TAX ADVISOR AS TO LEGAL, BUSINESS AND TAX ADVICE.

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

THE DISTRIBUTION OF THIS OFFERING CIRCULAR AND THE OFFER OR SALE OF NOTES AND PREFERENCE SHARES MAY BE RESTRICTED BY LAW IN CERTAIN JURISDICTIONS. NONE OF THE ISSUER, THE CO-ISSUER OR THE INITIAL PURCHASER REPRESENTS THAT THIS DOCUMENT MAY BE LAWFULLY DISTRIBUTED, OR THAT ANY NOTES MAY BE LAWFULLY OFFERED, IN COMPLIANCE WITH ANY APPLICABLE REGISTRATION OR OTHER REQUIREMENTS IN ANY SUCH JURISDICTION, OR PURSUANT TO AN EXEMPTION AVAILABLE THEREUNDER, OR ASSUME ANY RESPONSIBILITY FOR FACILITATING ANY SUCH DISTRIBUTION OR OFFERING. IN PARTICULAR, NO ACTION HAS BEEN TAKEN BY THE ISSUER, THE CO-ISSUER OR THE INITIAL PURCHASER WHICH WOULD PERMIT A PUBLIC OFFERING OF ANY NOTES OR DISTRIBUTION OF THIS DOCUMENT IN ANY JURISDICTION WHERE ACTION FOR THAT PURPOSE IS REQUIRED. ACCORDINGLY, NO NOTES OR PREFERENCE SHARES MAY BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, AND NEITHER THIS OFFERING CIRCULAR NOR ANY ADVERTISEMENT OR OTHER OFFERING MATERIAL MAY BE DISTRIBUTED OR PUBLISHED IN ANY JURISDICTION, EXCEPT UNDER CIRCUMSTANCES THAT WILL RESULT IN COMPLIANCE WITH ANY APPLICABLE LAWS AND REGULATIONS. PERSONS INTO WHOSE POSSESSION THIS OFFERING CIRCULAR OR ANY NOTES COME MUST INFORM THEMSELVES ABOUT AND OBSERVE ANY SUCH RESTRICTIONS.

NOTWITHSTANDING ANY OTHER EXPRESS OR IMPLIED AGREEMENT TO THE CONTRARY, THE ISSUER, THE INITIAL PURCHASER, THE COLLATERAL MANAGER AND EACH RECIPIENT HEREOF AGREE THAT EACH OF THEM AND EACH OF THEIR EMPLOYEES, REPRESENTATIVES, AND

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OTHER AGENTS MAY DISCLOSE, IMMEDIATELY UPON COMMENCEMENT OF DISCUSSIONS, TO ANY AND ALL PERSONS, WITHOUT LIMITATION OF ANY KIND, THE TAX TREATMENT AND TAX STRUCTURE OF THE TRANSACTION AND ALL MATERIALS OF ANY KIND (INCLUDING OPINIONS OR OTHER TAX ANALYSES) THAT ARE PROVIDED TO ANY OF THEM RELATING TO SUCH TAX TREATMENT AND TAX STRUCTURE, EXCEPT WHERE CONFIDENTIALITY IS REASONABLY NECESSARY TO COMPLY WITH U.S. FEDERAL, STATE, OR CAYMAN ISLAND'S SECURITIES LAWS.

THIS DOCUMENT IS CONSIDERED AN ADVERTISEMENT FOR PURPOSES OF APPLICABLE MEASURES IMPLEMENTING E.U. DIRECTIVE 2003/71/EC. A PROSPECTUS PREPARED PURSUANT TO THE PROSPECTUS DIRECTIVE WILL BE PUBLISHED, WHICH CAN BE OBTAINED FROM THE ISSUER AND THE IRISH PAYING AGENT. SEE "LISTING AND GENERAL INFORMATION".

NOTICE TO FLORIDA RESIDENTS

THE NOTES AND PREFERENCE SHARES 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 NOTES AND PREFERENCE SHARES WITHOUT PENALTY WITHIN THREE DAYS AFTER THE FIRST TENDER OF CONSIDERATION.

NOTICE TO CONNECTICUT RESIDENTS

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

NOTICE TO GEORGIA RESIDENTS

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

NOTICE TO RESIDENTS OF AUSTRALIA

NO PROSPECTUS, DISCLOSURE DOCUMENT, OFFERING MATERIAL OR ADVERTISEMENT IN RELATION TO THE NOTES AND PREFERENCE SHARES HAS BEEN LODGED WITH THE AUSTRALIAN SECURITIES AND INVESTMENTS COMMISSION OR THE AUSTRALIAN STOCK EXCHANGE LIMITED. ACCORDINGLY, A PERSON MAY NOT (A) MAKE, OFFER OR INVITE

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APPLICATIONS FOR THE ISSUE, SALE OR PURCHASE OF THE NOTES AND PREFERENCE SHARES WITHIN, TO OR FROM AUSTRALIA (INCLUDING AN OFFER OR INVITATION WHICH IS RECEIVED BY A PERSON IN AUSTRALIA) OR (B) DISTRIBUTE OR PUBLISH THIS OFFERING CIRCULAR OR ANY OTHER PROSPECTUS, DISCLOSURE DOCUMENT, OFFERING MATERIAL OR ADVERTISEMENT RELATING TO THE SECURITIES IN AUSTRALIA, UNLESS (I) THE MINIMUM AGGREGATE CONSIDERATION PAYABLE BY EACH OFFEREE IS THE U.S. DOLLAR EQUIVALENT OF AT LEAST A$500,000 (DISREGARDING MONEYS LENT BY THE OFFEROR OR ITS ASSOCIATES) OR THE OFFER OTHERWISE DOES NOT REQUIRE DISCLOSURE TO INVESTORS IN ACCORDANCE WITH PART 6D.2 OF THE CORPORATIONS ACT 2001 (CWLTH) OF AUSTRALIA, AND (II) SUCH ACTION COMPLIES WITH ALL APPLICABLE LAWS AND REGULATIONS.

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NOTICE TO RESIDENTS OF AUSTRIA

THIS OFFERING CIRCULAR IS NOT A PROSPECTUS UNDER THE AUSTRIAN CAPITAL MARKETS ACT OR THE AUSTRIAN INVESTMENT FUNDS ACT. THIS OFFERING CIRCULAR HAS NOT BEEN EXAMINED BY A PROSPECTUS AUDITOR AND NO PROSPECTUS ON THE PRIVATE PLACEMENT OF THE NOTES AND PREFERENCE SHARES HAS BEEN PUBLISHED OR WILL BE PUBLISHED IN AUSTRIA. THE NOTES AND PREFERENCE SHARES ARE OFFERED IN AUSTRIA ONLY TO A RESTRICTED AND SELECTED NUMBER OF PROFESSIONAL AND SOPHISTICATED INDIVIDUAL INVESTORS, AND NO PUBLIC OFFERING OF THE NOTES AND PREFERENCE SHARES IN AUSTRIA IS BEING MADE OR IS INTENDED TO BE MADE. THE NOTES AND PREFERENCE SHARES CAN ONLY BE ACQUIRED FOR A COMMITMENT EXCEEDING ATS600,000 OR ITS EQUIVALENT VALUE IN ANY FOREIGN CURRENCY. THE INTERESTS ISSUED BY THE ISSUERS ARE NOT OFFERED IN AUSTRIA, AND THE ISSUERS ARE NOT AND WILL NOT BE REGISTERED AS A FOREIGN INVESTMENT FUND IN AUSTRIA.

NOTICE TO RESIDENTS OF BAHRAIN

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

NOTICE TO RESIDENTS OF BELGIUM

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

NOTICE TO RESIDENTS OF THE CAYMAN ISLANDS

NO INVITATION TO SUBSCRIBE FOR ANY NOTES AND PREFERENCE SHARES MAY BE MADE TO THE PUBLIC IN THE CAYMAN ISLANDS.

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NOTICE TO RESIDENTS OF DENMARK

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

NOTICE TO RESIDENTS OF FINLAND

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

NOTICE TO RESIDENTS OF FRANCE

THIS OFFERING CIRCULAR IS FURNISHED TO YOU SOLELY FOR YOUR INFORMATION AND MAY NOT BE REPRODUCED OR REDISTRIBUTED TO ANY OTHER PERSON. IT IS STRICTLY CONFIDENTIAL AND IS SOLELY DESTINED FOR PERSONS OR INSTITUTIONS TO WHICH IT WAS INITIALLY SUPPLIED. THIS OFFERING CIRCULAR DOES NOT CONSTITUTE AN OFFER OR AN INVITATION TO SUBSCRIBE FOR OR TO PURCHASE ANY OFFERED SECURITIES AND NEITHER THIS DOCUMENT NOR ANYTHING CONTAINED HEREIN SHALL FORM THE BASIS OF ANY CONTRACT OR COMMITMENT WHATSOEVER.

AS LONG AS THE PROSPECTUS DIRECTIVE IS NOT IMPLEMENTED IN FRANCE, THE FOLLOWING FRENCH SELLING RESTRICTIONS WILL APPLY: EACH OF THE INITIAL PURCHASER HAS REPRESENTED AND AGREED, AND EACH FUTURE DEALER WILL BE REQUIRED TO REPRESENT AND AGREE ,THAT IN CONNECTION WITH THEIR INITIAL DISTRIBUTION IT HAS NOT OFFERED OR SOLD OR CAUSED TO BE OFFERED OR SOLD AND WILL NOT OFFER OR SELL OR CAUSED TO BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, ANY OFFERED SECURITIES BY WAY OF A PUBLIC OFFERING IN THE REPUBLIC OF FRANCE (AN APPEL PUBLIC À L'ÉPARGNE AS DEFINED IN ARTICLE L.411-1 OF THE FRENCH CODE MONÉTAIRE ET FINANCIER (THE "FRENCH CODE")) AND THAT OFFERS AND SALES OF THE OFFERED SECURITIES WILL BE MADE IN THE REPUBLIC OF FRANCE IN ACCORDANCE WITH THE ARTICLE L.411-1 AND FOLLOWING OF THE FRENCH CODE AND DECREE NO.98.880 DATED 1ST OCTOBER, 1998 RELATING TO OFFERS TO QUALIFIED INVESTORS.

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NOTICE TO RESIDENTS OF GERMANY

THE NOTES AND PREFERENCE SHARES MAY ONLY BE ACQUIRED IN ACCORDANCE WITH THE GERMAN WERTPAPIERPROSPEKTGESETZ ("**SECURITIES PROSPECTUS ACT**") AND THE INVESTMENTGESETZ ("**INVESTMENT ACT**"). THE SECURITIES ARE NOT REGISTERED OR AUTHORIZED FOR DISTRIBUTION UNDER THE INVESTMENT ACT AND MAY NOT BE, AND ARE NOT BEING OFFERED OR ADVERTISED PUBLICLY OR OFFERED SIMILARLY UNDER THE INVESTMENT ACT OR THE SECURITIES PROSPECTUS ACT. THEREFORE, THIS OFFER IS ONLY BEING MADE TO RECIPIENTS TO WHOM THIS DOCUMENT IS PERSONALLY ADDRESSED AND DOES NOT CONSTITUTE AN OFFER OR ADVERTISEMENT TO THE PUBLIC. THE SECURITIES CAN ONLY BE ACQUIRED FOR A MINIMUM PURCHASE PRICE OF AT LEAST € 50,000 (EXCLUDING COMMISSIONS AND OTHER FEES) PER PERSON. ALL PROSPECTIVE INVESTORS ARE URGED TO SEEK INDEPENDENT TAX ADVICE. NONE OF THE ISSUER, THE TRUSTEE, THE COLLATERAL MANAGER, THE INITIAL PURCHASER OR ANY OF THEIR RESPECTIVE AFFILIATES GIVES ANY TAX ADVICE.

NOTICE TO RESIDENTS OF HONG KONG

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

NOTICE TO RESIDENTS OF ITALY

THIS OFFERING CIRCULAR MAY NOT BE DISTRIBUTED TO MEMBERS OF THE PUBLIC IN ITALY. THE ITALIAN COMMISSIONE NAZIONALE PER LA SOCIETA E LA BORSA HAS NOT AUTHORIZED ANY OFFERING OF THE SUBSCRIPTION OF THE NOTES OR PREFERENCE SHARES. ACCORDINGLY, THE NOTES AND PREFERENCE SHARES MAY NOT BE OFFERED OR SOLD IN ITALY OR TO RESIDENTS THEREOF EXCEPT AS PERMITTED BY ITALIAN LAW.

NOTICE TO RESIDENTS OF JAPAN

THE NOTES AND PREFERENCE SHARES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES AND EXCHANGE LAW OF JAPAN. NEITHER THE NOTES, THE

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PREFERENCE SHARES NOR ANY INTEREST THEREIN MAY BE OFFERED, SOLD, RESOLD OR OTHERWISE TRANSFERRED, DIRECTLY OR INDIRECTLY, IN JAPAN OR TO OR FOR THE ACCOUNT OF ANY RESIDENT OF JAPAN (WHICH TERM AS USED HEREIN MEANS ANY PERSON RESIDENT IN JAPAN, INCLUDING ANY CORPORATION OR OTHER ENTITY ORGANIZED UNDER THE LAWS OF JAPAN), OR TO OTHERS FOR RE-OFFERING OR SALE, DIRECTLY OR INDIRECTLY, IN JAPAN OR TO A RESIDENT OF JAPAN EXCEPT PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF, AND OTHERWISE IN COMPLIANCE WITH, THE SECURITIES AND EXCHANGE LAW AND ANY OTHER APPLICABLE LAW, REGULATIONS AND MINISTERIAL GUIDELINES OF JAPAN.

NOTICE TO RESIDENTS OF KOREA

NONE OF THE ISSUER, THE CO-ISSUER AND THE INITIAL PURCHASER IS MAKING ANY REPRESENTATION, EXPRESS OR IMPLIED, WITH RESPECT TO THE QUALIFICATION OF THE RECIPIENTS OF THIS OFFERING CIRCULAR FOR THE PURPOSE OF INVESTING IN THE NOTES OR PREFERENCE SHARES UNDER THE LAWS OF KOREA, INCLUDING AND WITHOUT LIMITATION THE FOREIGN EXCHANGE MANAGEMENT LAW AND REGULATIONS THEREUNDER. THE NOTES AND PREFERENCE SHARES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES AND EXCHANGE LAW OF KOREA AND NONE OF THE NOTES OR PREFERENCE SHARES MAY BE OFFERED OR SOLD OR DELIVERED, DIRECTLY OR INDIRECTLY, IN KOREA OR TO ANY RESIDENT OF KOREA EXCEPT PURSUANT TO APPLICABLE LAWS AND REGULATIONS OF KOREA.

NOTICE TO RESIDENTS OF THE NETHERLANDS

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

NOTICE TO RESIDENTS OF NORWAY

EACH OF THE ISSUERS AND THE INITIAL PURCHASER REPRESENTS AND AGREES THAT IT WILL COMPLY WITH CHAPTER 5 OF THE NORWEGIAN ACT NO. 79 OF JUNE 19, 1997 ON SECURITIES TRADING (SECURITIES TRADING ACT) AND EACH OF THE ISSUERS AND THE INITIAL PURCHASER ADDITIONALLY REPRESENT AND AGREE THAT THEY HAVE NOT, DIRECTLY OR INDIRECTLY, OFFERED OR SOLD AND WILL NOT, DIRECTLY OR INDIRECTLY, OFFER OR SELL IN THE KINGDOM OF NORWAY OR TO INVESTORS IN THE NORWEGIAN SECURITIES MARKET ANY NOTES OR PREFERENCE SHARES OTHER THAN TO PERSONS WHO ARE REGISTERED WITH THE OSLO STOCK EXCHANGE AS PROFESSIONAL INVESTORS.

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NOTICE TO RESIDENTS OF SINGAPORE

THIS OFFERING CIRCULAR WILL, PRIOR TO ANY SALE OF SECURITIES PURSUANT TO THE PROVISIONS OF SECTION 106D OF THE COMPANIES ACT (CAP. 50), BE LODGED, PURSUANT TO SAID SECTION 106D, WITH THE REGISTRAR OF COMPANIES IN SINGAPORE, WHICH TAKES NO RESPONSIBILITY FOR ITS CONTENTS, BUT HAS NOT BEEN AND WILL NOT BE REGISTERED AS A PROSPECTUS WITH THE REGISTRAR OF COMPANIES IN SINGAPORE. ACCORDINGLY, THE NOTES AND PREFERENCE SHARES MAY NOT BE OFFERED NOR MAY THIS OFFERING CIRCULAR NOR ANY OTHER OFFERING DOCUMENT OR MATERIAL RELATING TO THE NOTES OR PREFERENCE SHARES BE CIRCULATED OR DISTRIBUTED, DIRECTLY OR INDIRECTLY, TO THE PUBLIC OR ANY MEMBER OF THE PUBLIC IN SINGAPORE OTHER THAN TO INSTITUTIONAL INVESTORS OR OTHER PERSONS OF THE KIND SPECIFIED IN SECTION 106C AND SECTION 106D OF THE COMPANIES ACT OR ANY OTHER APPLICABLE EXEMPTION INVOKED UNDER DIVISION 5A OF PART IV OF THE COMPANIES ACT. THE FIRST SALE OF SECURITIES ACQUIRED UNDER A SECTION 106C OR SECTION 106D EXEMPTION IS SUBJECT TO THE PROVISIONS OF SECTION 106E OF THE COMPANIES ACT.

NOTICE TO RESIDENTS OF SPAIN

THIS OFFERING CIRCULAR HAS NOT BEEN AND WILL NOT BE REGISTERED WITH THE COMISION NACIONAL DEL MERCADO DE VALORES OF SPAIN AND MAY NOT BE DISTRIBUTED IN SPAIN IN CONNECTION WITH THE OFFERING AND SALE OF THE NOTES OR PREFERENCE SHARES WITHOUT COMPLYING WITH ALL LEGAL AND REGULATORY REQUIREMENTS IN RELATION THERETO.

NOTICE TO RESIDENTS OF SWEDEN

THIS OFFERING CIRCULAR IS FOR THE RECIPIENT ONLY AND MAY NOT IN ANY WAY BE FORWARDED TO ANY OTHER PERSON OR TO THE PUBLIC IN SWEDEN. THE OFFERING OF THE NOTES AND PREFERENCE SHARES IS INTENDED TO BE A PRIVATE PLACEMENT, AND A MINIMUM INVESTMENT OF SEK 300,000 IN THE NOTES OR PREFERENCE SHARES IS REQUIRED.

NOTICE TO RESIDENTS OF SWITZERLAND

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

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NOTICE TO RESIDENTS OF TAIWAN AND CHINA

THE OFFER OF THE NOTES AND PREFERENCE SHARES HAS NOT BEEN AND WILL NOT BE REGISTERED WITH THE SECURITIES AND FUTURES COMMISSION OF TAIWAN OR WITH THE RELEVANT REGULATORY AUTHORITIES IN THE REPUBLIC OF CHINA PURSUANT TO RELEVANT SECURITIES LAWS AND REGULATIONS AND MAY NOT BE OFFERED OR SOLD WITHIN TAIWAN OR THE REPUBLIC OF CHINA THROUGH A PUBLIC OFFERING OR IN CIRCUMSTANCES WHICH CONSTITUTE AN OFFER WITHIN THE MEANING OF THE SECURITIES AND EXCHANGE LAW OF TAIWAN OR WITHIN THE MEANING OF RELEVANT SECURITIES LAWS AND REGULATIONS IN THE REPUBLIC OF CHINA THAT REQUIRE A REGISTRATION OR APPROVAL OF THE SECURITIES AND FUTURES COMMISSION OF TAIWAN OR THE RELEVANT SECURITIES REGULATORY AUTHORITIES IN CHINA.

NOTICE TO RESIDENTS OF THE UNITED KINGDOM

THIS DOCUMENT IS ONLY BEING DISTRIBUTED TO AND IS ONLY DIRECTED AT (I) PERSONS WHO ARE OUTSIDE THE UNITED KINGDOM OR (II) TO INVESTMENT PROFESSIONALS FALLING WITHIN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT OF 2000 (**"FSMA"**) (FINANCIAL PROMOTION) ORDER 2005 (THE **"ORDER"**) OR (III) HIGH NET WORTH ENTITIES, AND OTHER PERSONS TO WHOM IT MAY LAWFULLY BE COMMUNICATED, FALLING WITHIN ARTICLE 49(2) (A) TO (D) OF THE ORDER (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS **"RELEVANT PERSONS"**). THE SECURITIES ARE AVAILABLE ONLY TO, AND ANY INVITATION, OFFER OR AGREEMENT TO SUBSCRIBE, PURCHASE OR OTHERWISE ACQUIRE SUCH SECURITIES WILL BE ENGAGED IN ONLY WITH, RELEVANT PERSONS. ANY PERSON WHO IS NOT A RELEVANT PERSON SHOULD NOT ACT OR RELY ON THIS DOCUMENT OR ANY OF ITS CONTENTS.

AVAILABLE INFORMATION

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

FORWARD LOOKING STATEMENTS

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

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Some important factors that could cause actual results to differ materially from those in any forward looking statements include changes in interest rates, market, financial or legal uncertainties, differences in the actual allocation of the Underlying Assets among asset categories from those identified on **Schedule A** hereto, the timing and frequency of defaults, writedowns, principal shortfalls and interest shortfalls on the Underlying Assets, mismatches between the timing of accrual and receipt of Interest Proceeds and Principal Proceeds from the Underlying Assets (particularly prior to the investment of all Uninvested Proceeds), defaults under Underlying Assets and the effectiveness of any Interest Rate Swap 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 Purchaser or its 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 Purchaser or its affiliates has any obligation to update or otherwise revise any projections, including any revisions to reflect changes in economic conditions or other circumstances arising after the date hereof or to reflect the occurrence of unanticipated events, even if the underlying assumptions do not come to fruition.

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SCHEDULE A — List of Underlying Assets
SCHEDULE B — Auction Call Redemption – Auction Procedures
SCHEDULE C — Standard & Poor's Rating
SCHEDULE D — Moody's Rating and Moody's Weighted Average Rating
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SCHEDULE L — Index of Defined Terms

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SUMMARY OF TERMS

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

Securities Offered	U.S.$[ ] aggregate principal amount Class A-1 Floating Rate Notes Due [] (the **"Class A-1 Notes"**).
	U.S.$[ ] aggregate principal amount Class A-2 Floating Rate Notes Due [] (the **"Class A-2 Notes"**) and, together with the Class A-1 Notes, the **"Class A Notes"**).
	U.S.$[ ] aggregate principal amount Class B Floating Rate Notes Due [] (the **"Class B Notes"**).
	U.S.$[ ] aggregate principal amount Class C Floating Rate Deferrable Interest Notes Due [] (the **"Class C Notes"**).
	U.S.$[ ] aggregate principal amount Class D Floating Rate Deferrable Interest Notes Due [] (the **"Class D Notes"**).
	U.S.$[ ] aggregate principal amount Class E Floating Rate Deferrable Interest Notes Due [] (the **"Class E Notes**, together with the Class A Notes, Class B Notes, Class C Notes and Class D Notes, the **"Notes"**).
Preference Shares.....	Concurrently with the issuance of the Notes, the Issuer will issue [] Preference Shares, par value U.S.$0.01 per share, issued at a liquidation preference of U.S.$[1,000] per share (the **"Preference Shares"**). It is expected that the Collateral Manager will purchase all of the Preference Shares and the Collateral Manager may purchase some or all of the Class E Notes.
Status of the Notes	Each of the Class A-1 Notes, Class A-2 Notes, Class B Notes, Class C Notes, Class D Notes and Class E Notes are herein referred to as a **"Class"** of Notes. The entire principal amount of each Class of Notes and all of the Preference Shares will be issued on the Closing Date.
	The Notes will be issued and secured pursuant to the Indenture. The Synthetic Security 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 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 Trustee, the Synthetic Security Counterparty, the Offsetting Transaction Counterparty and any

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Interest Rate Swap Counterparty (collectively, the **"Secured Parties"**). See "Description of the Notes—Status and Security."

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 and *sixth*, Class E Notes, with (a) each Class of Notes in such list being **"Senior"** to each other Class of Notes that follows such Class of Notes in such list and (b) each Class of Notes (other than the Class A-1 Notes) in such list being **"Subordinate"** to the Class of Notes that precedes such Class of Notes in such list. The Notes are Senior to the Preference Shares.

No payment of interest on any Class of Notes will be made until all accrued interest due and payable on the Notes of each Class that is Senior to such Class and that remains outstanding has been paid in full. No payment of principal of any Class of Notes will be made until all principal of, and 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, except as described under "—Principal Repayment of the Notes". See also "Description of the Notes—Priority of Payments."

However:

(a) on any Distribution Date occurring on or before the Distribution Date in [] (with the period from the Closing Date to such Distribution Date referred to herein as the **"Priority Distribution Period"**), Interest Proceeds will be applied, in an amount available for such purpose, if any, on the relevant Distribution Date, to pay principal of the Class D Notes in an amount up to the Class D Priority Redemption Amount for such Distribution Date as set forth in **Schedule G** to this Offering Circular until []% of the aggregate principal amount of the Class D Notes as of the Closing Date is redeemed; and on any Distribution Date occurring after the [] Distribution Date, []% of the Interest Proceeds that would otherwise be paid to the Preference Share Paying Agent for distribution to the holders of the Preference Shares will be applied to pay principal of the Class D Notes until the Class D Notes are paid in full;

(b) on any Distribution Date occurring on or after the Distribution Date in [] (if no Optional Redemption, Auction Call Redemption, Clean-Up Call Redemption or Tax Redemption has been successfully completed before such Distribution Date) (the **"Accelerated**

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	Amortization Date"), Interest Proceeds that would otherwise be paid to the Preference Share Paying Agent for distribution to the holders of the Preference Shares will be applied to pay, *first*, the principal of the Class E Notes, *second*, the principal of the Class D Notes, *third*, the principal of the Class C Notes, *fourth*, the principal of the Class B Notes, *fifth*, the principal of the Class A-2 Notes and *sixth*, the principal of the Class A-1 Notes, in each case until such Class has been paid in full; and (c) If the Class E Diversion Test is not satisfied on a Determination Date, Interest Proceeds will be applied on the immediately succeeding Distribution Date to pay principal of the Class E Notes in sufficient amounts to satisfy the Class E Diversion Test. See "Description of the Notes—Priority of Payments."
The Issuers	Gemstone CDO VII Ltd. (the **"Issuer"**) is an exempted company with limited liability incorporated under the Companies Law (2004 Revision) of the Cayman Islands pursuant to its Memorandum and Articles of Association (the **"Issuer Charter"**) and is in good standing under the laws of the Cayman Islands. The Indenture and Issuer Charter will provide that the activities of the Issuer are limited to: (a) acquiring, holding, pledging and selling Underlying Assets, Offsetting Transactions and Eligible Investments; (b) entering into and performing its obligations under the Indenture, any Interest Rate Swap Agreement, any Investment Agreement, the Management Agreement, the Collateral Administration Agreement, the Note Purchase Agreement, the subscription agreements with respect to the private placement of the Class E Notes and the Preference Shares (the **"Subscription Agreements"**) and the Preference Share Paying Agency Agreement; (c) issuing, redeeming and selling the Notes and the Preference Shares, and issuing the Ordinary Shares; (d) pledging the Collateral as security for its obligations in respect of the Notes and otherwise for the benefit of the Secured Parties; (e) owning the Co-Issuer; and (f) other activities incidental to the foregoing.

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	The Issuer will not have any material assets other than the Underlying Assets, Eligible Investments, any Interest Rate Swap Agreement and rights under certain other agreements entered into as described herein. Gemstone CDO VII Corp., a Delaware corporation (the **"Co-Issuer"** and, together with the Issuer, the **"Issuers"**), was incorporated for the sole purpose of co-issuing the Notes. The entire authorized share capital of the Co-Issuer is owned by the Issuer. The Co-Issuer will not have any assets (other than the proceeds of its common shares, being U.S.$[250]) and will not pledge any assets to secure any Class of Notes. The Co-Issuer will not have any interest in the Underlying Assets held by the Issuer.
Collateral Manager.....	HBK Investments L.P., a Delaware limited partnership (together with its affiliated subadvisors, the **"Collateral Manager"**) with headquarters in Dallas, Texas, will manage the Collateral under a Management Agreement to be entered into between the Issuer and the Collateral Manager (the **"Management Agreement"**). Collateral management services for the Issuer will be performed by various affiliated subadvisors of HBK Investments L.P., which are under common control with HBK Investments L.P. Pursuant to the Management Agreement and in accordance with the Indenture, the Collateral Manager has selected and will manage the Collateral and will exercise rights and remedies associated with the Underlying Assets based on the restrictions set forth in the Indenture and on the Collateral Manager's research, credit analysis and judgment. The Collateral Manager will also monitor any Interest Rate Swap Agreement and may also act as the Auction Agent in connection with an Auction Call Redemption. Also, the Collateral Manager may direct the Disposition of the Underlying Assets in the case of an Optional Redemption, a Clean-up Call or a Tax Redemption. For a summary of the provisions of the Management Agreement and certain other information concerning the Collateral Manager and key individuals associated therewith who will be managing the Issuer's portfolio, see "The Collateral Manager" and "The Management Agreement."
Use of Proceeds.....	The gross proceeds received from the issuance and sale of the Notes and the Preference Shares will be approximately U.S.$[ ]. On the Closing Date, the Issuer will receive approximately U.S.$[ ] as the net proceeds from the issuance and sale of the Notes and the Preference Shares. The net proceeds from the issuance and sale of the Notes and the Preference Shares are the gross proceeds net of the payment of the placement and

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	structuring fees related to the placement of the Notes and Preference Shares, the payment of other closing expenses and an initial deposit into the Expense Account. The net proceeds from the issuance and the sale of the Notes and the Preference Shares will be used by the Issuer to purchase on the Closing Date a diversified portfolio of interests in asset-backed securities (**"Asset-Backed Securities"**) and Synthetic Securities (together with the Asset-Backed Securities, the **"Underlying Assets"**) having the characteristics described herein, to enter into Offsetting Transactions (including the payment of any initial amounts upon the entry into an Offsetting Transaction) and to fund certain accounts established under the Indenture. See "Security for the Notes—Underlying Assets" and "—Closing Date Portfolio." On the Closing Date, the Issuer will have acquired (or committed to acquire for settlement in accordance with customary settlement procedures in the relevant markets) the entire portfolio. As of the Closing Date, the portfolio will consist of Underlying Assets (acquired or committed to be acquired) having an aggregate Principal/Notional Balance (including principal collections on such Underlying Assets deposited in the Uninvested Proceeds Account on the Closing Date) of approximately U.S.$[ ]. In the event that there are any remaining uninvested net proceeds on the Determination Date preceding the [] 2007 Distribution Date (the **"First Distribution Date"**), they will be applied in the manner described herein under "Description of the Notes—Certain Definitions—Principal Proceeds," "Description of the Notes—Priority of Payments—Principal Proceeds" and "Security for the Notes—The Accounts—Uninvested Proceeds Account."
Security for the Notes.....	Pursuant to the Indenture, the Notes, together with the Issuer's obligations to the Interest Rate Swap Counterparty under any Interest Rate Swap Agreement, the Synthetic Security Counterparty under the Synthetic Securities, the Initial Investment Agreement Provider under the Initial Investment Agreement, the Trustee under the Indenture and the Collateral Manager under the Management Agreement, will be secured by: (a) the Underlying Assets and Equity Securities and the Offset Transactions and the Offsetting Transactions; (b) the rights of the Issuer under any Interest Rate Swap Agreement; (c) amounts on deposit in the Payment Account, the Interest Collection Account, the Principal Collection Account, the Expense Account, the Uninvested Proceeds Account, the Synthetic Security Issuer

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	Account, the Disposition Proceeds Account, the Synthetic Security Collateral Account [and the Interest Rate Swap Counterparty Collateral Account] (collectively, the **"Accounts"**) and Eligible Investments purchased with funds on deposit in such accounts; (d) the rights of the Issuer under the Management Agreement, the Note Purchase Agreement, the Subscription Agreements and the Administration Agreement; and (e) 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. The Collateral will not include the Excepted Property.
Acquisition of the Underlying Assets.....	On the Closing Date, the Issuer will have acquired (or committed to acquire for settlement in accordance with customary settlement procedures in the relevant markets) the entire portfolio, which will consist of Underlying Assets having an Aggregate Principal/Notional Balance (including principal collections on Asset-Backed Securities deposited in the Uninvested Proceeds Account on the Closing Date) of approximately U.S.$[ ] and will be pledged to the Trustee under the Indenture. The Underlying Assets so acquired by the Issuer will, on the Closing Date, have the characteristics described herein under "Security for the Notes— Underlying Assets" and "—Closing Date Portfolio." After the Closing Date, following the Disposition of Underlying Assets in accordance with and subject to the conditions herein, the Issuer, at the direction of the Collateral Manager, may apply the Disposition Proceeds in respect of such Dispositions to purchase additional Asset-Backed Securities or to enter into additional Synthetic Securities. During the Reinvestment Period, the Issuer, at the direction of the Collateral Manager and subject to the limitations described in "Disposition of the Underlying Assets," may trade Underlying Assets on a discretionary basis. After the Reinvestment Period, the Issuer will not be able to acquire Underlying Assets on a discretionary basis. Both during and after the Reinvestment Period, the Collateral Manager may direct the Issuer to Dispose of Defaulted Assets, Equity Securities, Credit-Risk Assets, Credit-Improved Assets and Withholding Securities as described under "Disposition of the Underlying Assets" and may be required to reinvest the Disposition Proceeds of such

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	Dispositions in additional Underlying Assets. During and after the Reinvestment Period, the Issuer, at the direction of the Collateral Manager, may also enter into Offsetting Transactions; *provided that* any Offsetting Transaction will be treated as a Disposition of the related Underlying Asset, meaning that Offsetting Transactions deemed to be discretionary and not in connection with the Disposition of Defaulted Assets, Equity Securities, Credit-Risk Assets, Credit-Improved Assets and Withholding Securities shall only occur during the Reinvestment Period.
Disposition of the Underlying Assets.....	At any time, the Collateral Manager may direct the Issuer to Dispose of any Defaulted Assets, Equity Securities or Underlying Assets subject to withholding or other similar taxes and acquire additional Underlying Assets; *provided* that such Dispositions and acquisitions are subject to the restrictions described in "Security for the Notes—Disposition of Underlying Assets." The Collateral Manager may also direct the Issuer to Dispose of Credit-Risk Assets, Credit-Improved Assets or other Underlying Assets and acquire additional Underlying Assets, subject to the conditions indicated below. *Credit-Risk Assets.* The Collateral Manager, on behalf of the Issuer, may direct the Trustee in writing to Dispose of any Underlying Asset that the Collateral Manager, acting on behalf of the Issuer, determines to be (and which the Collateral Manager certifies in writing to the Trustee that it has determined to be) a Credit-Risk Asset and, if applicable, to acquire additional Underlying Assets in accordance with clause (B) below. The Collateral Manager may not direct the Trustee to Dispose of any Underlying Asset that it determines to be a Credit-Risk Asset unless, in connection with the Disposition of such Credit-Risk Asset, the Collateral Manager will certify in writing to the Trustee that: (A) at the direction of the Collateral Manager, the Disposition Proceeds arising from the Disposition of such Credit-Risk Asset shall be transferred to the Principal Collection Account to be applied in accordance with the Priority of Payments; provided that such Disposition Proceeds may not be reinvested, or (B) the Collateral Manager believes that the Issuer will be able to reinvest the Disposition Proceeds arising from the Disposition of such Credit-Risk Asset, within [180] days after such Credit-Risk Asset is Disposed of, in one or more additional Asset-Backed Securities or Synthetic Securities having an Aggregate Principal/Notional Balance that, together

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with accrued interest thereon, is at least equal to the Disposition Proceeds arising from the Disposition of such Credit-Risk Asset being Disposed of and the Collateral Manager believes that after giving effect to such Disposition and the subsequent acquisition, the level of each of the Collateral Quality Tests and Eligibility Criteria is maintained or improved as compared to the test levels prior to such Disposition and subsequent acquisition; *provided however* that after the Reinvestment Period, the Issuer may not Dispose of a Credit-Risk Asset and acquire one or more additional Underlying Assets pursuant to this paragraph unless, *additionally*, (i) the Collateral Quality Tests are in compliance, (ii) the Underlying Asset proposed to be acquired shall have a Moody's Rating and a Standard & Poor's Rating at least equal to the Moody's Rating and the Standard & Poor's Rating respectively of the Credit-Risk Asset to be Disposed, (iii) the weighted average life of the Underlying Asset(s) proposed to be acquired following such Disposition shall be no more than two years greater than the weighted average life of the Credit-Risk Asset to be Disposed and (iv)(A) all Coverage Tests are satisfied prior to such Disposition, (B) the Collateral Manager believes that, after giving effect to such Disposition and the subsequent acquisition described in this paragraph all Coverage Tests will be satisfied and the level of each Coverage Test will be at least equal to its level prior to such Disposition and (C) the level of the Class D Overcollateralization Test is at least equal to [].

Credit-Improved Assets. The Collateral Manager, on behalf of the Issuer, may direct the Trustee in writing to Dispose of any Underlying Asset that the Collateral Manager, acting on behalf of the Issuer, determines to be (and which the Collateral Manager certifies in writing to the Trustee that it has determined to be) a Credit Improved Asset and, if applicable, to acquire additional Underlying Assets in accordance with clause (B) below. The Collateral Manager may not direct the Trustee to Dispose of any Underlying Asset that it determines to be a Credit-Improved Asset unless, in connection with the Disposition of such Credit-Improved Asset, the Collateral Manager will certify in writing to the Trustee that:

(A) at the direction of the Collateral Manager, the Disposition Proceeds arising from the Disposition of such Credit-Improved Asset shall be transferred to the Principal Collection Account to be applied in accordance with the Priority of Payments; provided that (i) such Disposition Proceeds may not be reinvested and (ii) such Disposition Proceeds must be at least equal to the par value of the Credit-Improved Asset Disposed, or

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(B) the Collateral Manager believes that the Issuer will be able to reinvest the Disposition Proceeds arising from the Disposition of such Credit-Improved Asset, within [180] days after such Credit-Improved Asset is Disposed of, in one or more additional Asset-Backed Securities or Synthetic Securities having an Aggregate Principal/Notional Balance at least equal to the Aggregate Principal/Notional Balance of the Credit-Improved Asset to be Disposed, and the Collateral Manager believes that after giving effect to such Disposition and the subsequent acquisition, the level of each of the Collateral Quality Tests and Eligibility Criteria is maintained or improved as compared to the test levels prior to such Disposition and subsequent acquisition; *provided however* that after the Reinvestment Period, the Issuer may not Dispose of a Credit-Improved Asset and acquire another Underlying Asset pursuant to this paragraph unless, *additionally,* (i) the Collateral Quality Tests are in compliance, (ii) the Underlying Asset proposed to be acquired shall have a Moody's Rating and a Standard & Poor's Rating at least equal to the Moody's Rating and the Standard & Poor's Rating, respectively, of the Credit-Improved Asset to be Disposed, (iii) the weighted average life of the Underlying Asset(s) proposed to be acquired following such Disposition shall be no more than two years greater than the weighted average life of the Credit-Improved Asset to be Disposed and (iv)(A) all Coverage Tests are satisfied prior to such Disposition, (B) the Collateral Manager believes that, after giving effect to such Disposition and the subsequent acquisition described in this paragraph all Coverage Tests will be satisfied and the level of each Coverage Test will be at least equal to its level prior to such Disposition and (C) the level of the Class D Overcollateralization Test is at least equal to [].

Discretionary Trading. At any time during the Reinvestment Period, the Collateral Manager, on behalf of the Issuer, may direct the Trustee in writing to Dispose of (and acquire if applicable), and the Trustee shall Dispose of (and acquire, if applicable) in the manner so directed by the Collateral Manager, acting on behalf of the Issuer, in writing, any Underlying Asset if, in connection with the Disposition of such Underlying Asset and the acquisition of another Underlying Asset, as applicable, the Collateral Manager shall certify in writing to the Trustee that:

(i) the Collateral Manager believes in good faith that Disposition Proceeds relating to such Underlying Asset can be reinvested within [180] days after the Disposition of such Underlying Asset in one or more additional Underlying Assets such that the Aggregate Principal/Notional Balance of such additional Underlying Assets is greater than or equal to the

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Principal/Notional Balance of the Underlying Asset to be so Disposed,

(ii) the Aggregate Principal/Notional Balance of all Underlying Assets Disposed of pursuant to this paragraph during any calendar year (including the period from the Closing Date to the end of calendar year 2007), does not exceed [20]% of the Net Outstanding Asset Balance as of the first day of such period (excluding, for the purposes of such calculation, the Disposition of any Credit-Risk Assets, Credit-Improved Assets, Defaulted Assets, Equity Securities and Withholding Securities and any Underlying Asset Disposed by the entry of the Issuer into an Offsetting Transaction with respect to such Underlying Asset),

(iii) the Collateral Manager believes that after giving effect to such Disposition and the subsequent acquisition, the level of each of the Collateral Quality Tests and Eligibility Criteria is maintained or improved as compared to the test levels prior to such Disposition and subsequent acquisition;

(iv) and Moody's has not reduced the long term rating of any Class of Notes below the long term rating in effect on the Closing Date by one or more major rating categories.

The Disposition Proceeds of an Asset-Backed Security will be deposited in the Disposition Proceeds Account and, subject to the restrictions described in "Security for the Notes—Disposition of Underlying Assets," will be available to be reinvested in other Underlying Assets within [180] days following such Disposition. Following such [180] day period, if not earlier transferred to the Principal Collection Account at the direction of the Collateral Manager, if such Disposition Proceeds have not been reinvested in any substitute Underlying Asset and remain in the Disposition Proceeds Account, such Disposition Proceeds shall be deposited in the Principal Collection Account and applied in accordance with the Priority of Payments.

"Reinvestment Period" means the period from the Closing Date until the first to occur of (i) the Payment Date immediately following the date that the Collateral Manager, acting on behalf of the Issuer, notifies the Trustee and the other designated parties that, in light of the composition of the Assets, general market conditions and other factors, the Collateral Manager (in its sole discretion) has determined on behalf of the Issuer that investments in additional Underlying Assets within the foreseeable future would either be impractical or not beneficial, (ii) an Event of Default or (iii) the day after the Payment Date occurring in []; *provided that* if the Collateral Manager had previously terminated the Reinvestment Period, the Collateral

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	Manager may (in its sole discretion) reinstate the Reinvestment Period if the notice of reinstatement is delivered prior to the Determination Date for the Distribution Date occurring in [].
	Principal Proceeds from the Disposition of, or principal payments on, Underlying Assets that are Investment Grade may at the Collateral Manager's sole discretion (exercised on behalf of the Issuer) be deposited into (x) the Collection Account for investment on a later date in additional Underlying Assets that are Investment Grade, or (y) the Synthetic Collateral Account to be invested in Eligible Investments, in each case, in accordance with the Eligibility Criteria and the Collateral Quality Tests.
	See "Security for the Notes—Disposition of Underlying Assets."
Interest Rate Swap Agreement.....	Following the Closing Date, subject to satisfaction of the Rating Condition, the Issuer may enter into an ISDA Master Agreement pursuant to which the Issuer will enter into an interest rate swap in accordance with the Indenture (such interest rate swap, together with any replacement therefor or additional interest rate swap agreement entered into in accordance with the Indenture, the **"Interest Rate Swap Agreement"**). Any Interest Rate Swap Agreement will provide that the Issuer will pay to the Interest Rate Swap Counterparty on each related Distribution Date interest at a fixed rate on a specified notional amount, in exchange for which the Interest Rate Swap Counterparty will pay to the Issuer interest on such notional amount at a rate equal to three month LIBOR for the related calculation period. See "Security for the Notes—The Interest Rate Swap Agreement."
Synthetic Securities.....	On the Closing Date, the Issuer will enter into a series of credit default swaps (each a **"Synthetic Security"**) with Deutsche Bank AG (in such role, the **"First Synthetic Security Counterparty"**). Each Synthetic Security will relate to a Reference Obligation whereby the Issuer will sell credit protection to the related Synthetic Security Counterparty on such Reference Obligation. Each Synthetic Security will be entered into pursuant to a 1992 ISDA Master Agreement (Multicurrency-Cross Border), including the schedule thereto (the **"Master Agreement"**), between the Issuer and a Synthetic Security Counterparty, and a separate confirmation of transaction (a **"Confirmation"**) evidencing the Synthetic Security thereunder. Each Confirmation may evidence several different transactions, each of which will be separate and distinct from all others documented under such Confirmation and relates to an individual Reference Obligation that is an Asset-Backed Security. The form of Confirmation for Reference Obligations that are RMBS Securities is attached

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hereto as **Schedule H**. The form of Confirmation for Reference Obligations that are ABX Tranche Securities is attached hereto as **Schedule I**. The form of Confirmation for Reference Obligations that are CMBS Securities is attached hereto as **Schedule J**. The form of Confirmation for Reference Obligations that are CDO Securities is attached hereto as **Schedule K**. The 2003 ISDA Credit Derivatives Definitions, as published by ISDA (the **"Credit Derivatives Definitions"**) will apply to, and be incorporated by reference into, each Synthetic Security.

Each Synthetic Security exposes the Issuer to the credit risk of a Reference Obligation. Each **"Reference Obligation,"** as of the related trade date, will be an Asset-Backed Security that satisfies the Eligibility Criteria.

During the Reinvestment Period, and only in accordance with the Eligibility Criteria, the Issuer may (i) enter into additional Synthetic Securities with the First Synthetic Security Counterparty and (ii) enter into new Synthetic Securities with other synthetic security counterparties (together with the First Synthetic Security Counterparty, the **"Synthetic Security Counterparties"**) made pursuant to a separate Master Agreement and Confirmation; *provided* that after giving effect to any such transaction, the Synthetic Security Collateral Amount equals or exceeds the Required Synthetic Security Collateral Amount. The **"Synthetic Security Collateral Amount"** equals on any date of determination, the amount on deposit in the related Synthetic Security Collateral Account, if any (including the Aggregate Principal/Notional Balance of the Eligible Investments on deposit in such account, but excluding all earnings on such Eligible Investments). The **"Required Synthetic Security Collateral Amount"** equals, with respect to each Synthetic Security Counterparty, on any date of determination, the Aggregate Principal/Notional Balance of all Synthetic Securities entered into with such Synthetic Security Counterparty. Each Master Agreement entered into with a Synthetic Security Counterparty shall be substantially identical to the Master Agreement entered into between the Issuer and the First Synthetic Security Counterparty prior to closing or, if not substantially identical, shall be approved by the First Synthetic Security Counterparty and each Rating Agency. Each Confirmation entered into with a Synthetic Security Counterparty shall be substantially similar to (w) the form of Confirmation attached hereto as **Schedule H** in the case of Reference Obligations that are RMBS Securities, (x) the form of Confirmation attached hereto as **Schedule I** in the case of Reference Obligations that are ABX Tranche Securities, (y) the form of Confirmation attached hereto as **Schedule J** in the case of Reference Obligations that are CMBS Securities or (z)

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the form of Confirmation attached hereto as **Schedule K** in the case of Reference Obligations that are CDO Securities or, if not substantially similar, shall be approved by each other Synthetic Security Counterparty and each Rating Agency.

The Synthetic Security Counterparty has the right in the event of an assignment of a Synthetic Security to reject any replacement for the Issuer, such right not to be unreasonably exercised. In deciding whether to approve or reject a replacement for the Issuer, the Synthetic Security Counterparty does not have to consider the interests of the Issuer or the Noteholders.

For a further description of the Synthetic Securities see "Security for the Notes— Underlying Assets Synthetic Securities" herein.

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Offsetting Transactions.....	On or after the Closing Date, the Issuer may enter into a series of credit default swaps (each an **"Offsetting Transaction"**) with one or more counterparties (each, an **"Offsetting Transaction Counterparty"**) required in order to hedge all or part of its credit exposure (determined as set out below) to obligors under Synthetic Securities. In the event that any such Offsetting Transaction is entered into in respect of all or part of a Synthetic Security, such Synthetic Security (or part thereof) will not be considered a Synthetic Security (the amount of such Synthetic Security so offset, the **"Offset Transaction"**). Offsetting Transactions must be entered into under one of the forms of confirmation attached as **Schedule H**, **Schedule I**, **Schedule J** or **Schedule K** hereto, each when so used for an Offsetting Transaction a **"Form Approved Short Synthetic Confirmation"**. Each Offsetting Transaction will relate to a Reference Obligation whereby the Issuer purchases credit protection from the related Offsetting Transaction Counterparty on such Reference Obligation. An Offsetting Transaction shall hedge all or part of the Issuer's credit exposure if, in the reasonable judgment of the Collateral Manager acting on behalf of the Issuer, such Offsetting Transaction hedges the Issuer's risk of loss (in whole or in part) with respect to the relevant Synthetic Security and the Offsetting Transaction relates to the same Reference Obligation and provides for all obligations thereunder to have substantially the same characteristics as obligations specified in such Synthetic Security. [Each Offsetting Transaction and Offset Transaction will include cross-default provisions providing that, in the case of an Offsetting Transaction, following an event of default or termination event with respect to an Offset Transaction, the related Offsetting Transaction will terminate and that, in the case of an Offset Transaction, following an event of default or termination event with respect to an Offsetting Transaction, the related Offset Transaction will terminate.] The fixed amounts payable with respect to an Offsetting Transaction must be less than or equal to the fixed amounts payable with respect to the related Synthetic Security and in certain circumstances the Issuer may be required to make an upfront payment to the Offsetting Transaction Counterparty.
Initial Investment Agreement.....	Amounts on deposit in the Synthetic Security Collateral Account may be invested in Eligible Investments (as defined herein) and will initially be invested under an investment agreement, dated as of the Closing Date (such agreement, the **"Initial Investment Agreement,"** and amounts so invested, the **"Investment"**), among the Issuer, the Trustee and [ ], as

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	investment agreement provider (in such capacity, the **"Initial Investment Agreement Provider"**). On the Closing Date, funds in an amount of about $[ ] are expected to be invested as the Investment.
	Pursuant to the Initial Investment Agreement, the Initial Investment Agreement Provider will be required to pay interest at a *per annum* floating rate equal to three-month LIBOR minus []% on the amounts invested thereunder. Interest on the Investment will accrue until the date the Initial Investment Agreement terminates or is terminated in accordance with its terms over each Interest Period and will be payable on the Business Day immediately prior to the Distribution Dates.
	On any Business Day of each month, subject to applicable notice requirements specified in the Initial Investment Agreement, the Trustee may make a withdrawal from the Initial Investment Agreement in order to make payments as described under Allocation Procedures.
	On or immediately prior to the Final Maturity Date, the Trustee (acting pursuant to the Indenture on behalf of the Issuer) will have the right to demand payment in full under the Initial Investment Agreement (if it is then in effect). On the Final Maturity Date of the Notes, all net proceeds from such liquidation and all available cash will be distributed in accordance with the priority of distribution provisions described herein. The obligations of the Initial Investment Agreement Provider under the Initial Investment Agreement will be insured by a financial guarantee policy (the **"Policy"** and together with the Initial Investment Agreement, the **"GIC"**) to the extent specified therein. See "Security for the Notes—The Initial Investment Agreement", "Security for the Notes—The Initial Investment Agreement—The Initial Investment Agreement Provider".
Interest Payments on the Notes	The Class A-1 Notes will bear interest at a floating rate *per annum* equal to LIBOR *plus* [ ]%.
	The Class A-2 Notes will bear interest at a floating rate *per annum* equal to LIBOR *plus* [ ]%.
	The Class B Notes will bear interest at a floating rate *per annum* equal to LIBOR *plus* [ ]%.
	The Class C Notes will bear interest at a floating rate *per annum* equal to LIBOR *plus* [ ]%.
	The Class D Notes will bear interest at a floating rate *per annum* equal to LIBOR *plus* [ ]%.

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	The Class E Notes will bear interest at a floating rate *per annum* equal to LIBOR *plus* [ ]%. The Preference Shares will receive any Excess Interest in accordance with the Priority of Payments. Interest on the Notes will be computed on the basis of a 360-day year and the actual number of days elapsed. Interest on the Notes will accrue from the Closing Date. Accrued and unpaid interest will be payable quarterly in arrears on each Distribution Date, if and to the extent that funds are available on such Distribution Date in accordance with the Priority of Payments set forth herein; provided that Interest in respect of the First Distribution Date will be paid on a period of [] days. See "Description of the Notes—Interest." Any Interest on the Class C Notes, Class D Notes or Class E Notes that is not paid when due by operation of the Priority of Payments will be deferred (**"Deferred Interest"**, or as applicable, **"Class C Deferred Interest"**, **"Class D Deferred Interest"** or **"Class E Deferred Interest"**). Interest will accrue on any deferred interest. Failure to make payment in respect of interest on the Class C Notes, Class D Notes or Class E Notes on any Distribution Date by reason of the Priority of Payments will not constitute an Event of Default under the Indenture as long as a more Senior Class of Notes remains outstanding. Upon the payment of Class C Deferred Interest, Class D Deferred Interest or Class E Deferred Interest, the deferred interest amount with respect to the Class C Notes, Class D Notes or the Class E Notes, as the case may be, will be reduced by the amount of such payment. Additionally, as long as any Class of Notes is outstanding if a Coverage Test applicable to such Class of Notes is not satisfied on any Determination Date relating to a Distribution Date, then Interest Proceeds that would otherwise be used to make payments in respect of interest on any Class of Notes Subordinate to such Class will be used instead to redeem, *first*, each Class (if any) of Notes Senior to such Class of Notes (sequentially in direct order of seniority) and, *second*, such Class of Notes, until each applicable Coverage Test is satisfied. See "Description of the Notes—Priority of Payments."
Maturity; Average Life; Duration	The stated maturity of the Notes is the [] Distribution Date (with respect to each Class of Notes, the **"Stated Maturity"**). Each Class of Notes will mature at the applicable Stated Maturity unless redeemed or repaid before the Stated Maturity. With respect to each Class of Notes, the earlier of the Stated Maturity and the Distribution Date on which the aggregate

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	principal amount of such Class of Notes is paid in full, including a Redemption Date or an Accelerated Maturity Date, is referred to herein as the **"Final Maturity Date"**. The average life of each Class of Notes may be less than the number of years until its Stated Maturity. See "Maturity and Prepayment Considerations," "Risk Factors—Projections, Forecasts and Estimates" and "—Average Life of the Notes and Prepayment Considerations."
Principal Repayment of the Notes	Principal Proceeds will be applied on each Distribution Date in accordance with the Priority of Payments to pay principal of each Class of Notes and, to the extent that there are Excess Principal Proceeds, to pay a dividend on the Preference Shares. In addition, (a) if a Coverage Test is not satisfied on a Determination Date, Interest Proceeds will be applied on the immediately succeeding Distribution Date to pay principal of the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class E Notes, sequentially in order of seniority in sufficient amounts to satisfy each Coverage Test, (b) on any Distribution Date occurring on or before the last day of the Priority Distribution Period, Interest Proceeds will be applied, in an amount available for such purpose, if any, on the relevant Distribution Date, to pay principal of the Class D Notes in an amount up to the Class D Priority Redemption Amount for such Distribution Date as set forth in **Schedule G** to this Offering Circular until []% of the aggregate principal amount of the Class D Notes as of the Closing Date is redeemed; and on any Distribution Date occurring after [], []% of the Interest Proceeds that would otherwise be paid to the Preference Share Paying Agent for distribution to the holders of the Preference Shares will be applied to pay principal of the Class D Notes until the Class D Notes are paid in full, and (c) if no Optional Redemption, Auction Call Redemption, Clean-Up Call Redemption or Tax Redemption has been successfully completed before the Accelerated Amortization Date, on each Distribution Date occurring on or after the Accelerated Amortization Date, Interest Proceeds that would otherwise be paid to the Preference Share Paying Agent for distribution to the holders of the Preference Shares will be applied to pay, *first*, the principal of the Class E Notes, *second*, the principal of the Class D Notes, *third*, the principal of the

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	Class C Notes, *fourth*, the principal of the Class B Notes, *fifth*, the principal of the Class A-2 Notes and *sixth*, the principal of the Class A-1 Notes, in each case until such Class has been paid in full, (d) If the Class E Diversion Test is not satisfied on a Determination Date, Interest Proceeds will be applied on the immediately succeeding Distribution Date to pay principal of the Class E Notes in sufficient amounts to satisfy the Class E Diversion Test, in each case, to the extent of funds available for such purposes in accordance with the Priority of Payments. See "Description of the Notes—Priority of Payments," "—Principal," "—Mandatory Redemption" and "—The Coverage Tests." The Issuer may redeem the Notes, in whole but not in part, at the applicable Redemption Price therefor at the times and under the circumstances described in "Description of the Notes—Auction Call Redemption," "—Optional Redemption", "—Clean-Up Call Redemption" and "—Tax Redemption."
Mandatory Redemption	The Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class E Notes will, on any Distribution Date, be subject to mandatory redemption from Interest Proceeds in the event that any Coverage Test is not satisfied on that Determination Date. In addition, certain Principal Proceeds, to the extent available, will be applied on each Distribution Date (after payment of certain other amounts in accordance with the Priority of Payments) to repay the principal of each Class of Notes. Any such redemption from Interest Proceeds or Principal Proceeds will be applied to each outstanding Class of Notes sequentially in direct order of seniority and will otherwise be effected as described below under "Description of the Notes—Priority of Payments" and "—Mandatory Redemption."
Optional Redemption	Subject to certain conditions described herein, on any Distribution Date on or after the [] Distribution Date, the Issuer may redeem the Notes (such redemption, an **"Optional Redemption"**), in whole but not in part, at the direction of the holders of at least sixty-six and two-thirds percent (66 2/3%) of the Preference Shares at the applicable Redemption Price therefor. Any such Optional Redemption may only be effected on a Distribution Date at the applicable Redemption Price and only from the Disposition Proceeds of all Collateral including Eligible Investments credited to the Accounts (other than that in [the Interest Rate Swap Counterparty Collateral Account and] the Synthetic Security Issuer Account) on such Distribution Date. No Optional Redemption may be effected, however, unless (i) all such Disposition Proceeds are used, in whole or in

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	part, to make such an Optional Redemption and (ii) such Disposition Proceeds are at least equal to the Redemption Amount. See "Description of the Notes—Optional Redemption".
Auction Call Redemption of the Notes	If the Notes have not been redeemed in full on or prior to the Distribution Date occurring in [] (the **"First Auction Call Date"**), and the Preference Shareholders have not directed an Optional Redemption, then an auction of the Underlying Assets will be conducted by the Auction Agent on behalf of the Issuer and, *provided* that certain conditions described herein are satisfied, the Underlying Assets will be sold and the Notes will be redeemable (an **"Auction Call Redemption"**), in whole but not in part and at the applicable Redemption Price, from the Disposition Proceeds of all Collateral including any Eligible Investments credited to the Accounts (other than that in the [Interest Rate Swap Counterparty Collateral Account and the] Synthetic Security Issuer Account); *provided* that funds under clauses (a) and (b) are sufficient to pay in full (i) the Redemption Amount and (ii) the Minimum Preference Share Redemption Amount. The **"Minimum Preference Share Redemption Amount"** equals (i) the aggregate liquidation preference of the Preference Shares *minus* (ii) the aggregate amount of all cash distributions on the Preference Shares (whether in respect of dividends or redemption payments) made to the Preference Share Paying Agent for distribution to the Preference Shareholders prior to the relevant Auction Date. If such conditions are not satisfied and the Underlying Assets are not Disposed of prior to such Distribution Date, the Auction Agent will conduct an auction on a semi-annual basis prior to each subsequent Distribution Date (each, a **"Subsequent Auction Call Date,"** and, together with the First Auction Call Date, each, an **"Auction Date"**) until the Notes are redeemed in full. An auction conducted in connection with an Auction Call Redemption (an **"Auction"**) shall be carried out in accordance with the auction procedures set forth in Schedule B attached hereto (the **"Auction Procedures"**). See "Description of the Notes—Auction Call Redemption." Pursuant to the Management Agreement, the Issuer may designate the Collateral Manager as the Auction Agent (in such capacity, the **"Auction Agent"**) in connection with the sale of the Collateral in connection with any Auction Call Redemption; *provided* that if the Collateral Manager or any of its Affiliates is a bidder on the Collateral, the Collateral Manager shall resign as Auction Agent and the Auction Agent for that Auction shall be the Initial Purchaser, an Affiliate of the Initial Purchaser or another unaffiliated third party as successor Auction Agent. In no event, however, will the Initial Purchaser have any obligation

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	to act as Auction Agent with respect to the Collateral. If an Auction Call Redemption is not successfully completed on any Auction Date, the Auction Agent shall conduct an Auction on each Subsequent Auction Call Date in accordance with the Auction Procedures on each subsequent Auction Date until an Auction Call Redemption is completed successfully. See "Schedule B—Auction Call Redemption—Auction Procedures."
Clean-Up Call Redemption	At the direction of the Collateral Manager, the Notes will be subject to redemption by the Issuer, in whole but not in part (a **"Clean-Up Call Redemption"**), at the applicable Redemption Price, on any Distribution Date selected by the Collateral Manager which occurs on or after the Distribution Date on which the aggregate outstanding principal amount of the Notes is less than or equal to []% of the original aggregate outstanding principal amount of the Notes as of the Closing Date. Any such redemption may only be effected on a Distribution Date and only from the Disposition Proceeds of all Collateral including Eligible Investments credited to the Accounts (other than that in the Synthetic Security Issuer Account). See "Description of the Notes—Clean-Up Call Redemption."
Tax Redemption of the Notes	The Issuer may redeem the Notes (such redemption, a **"Tax Redemption"**), in whole but not in part, at the direction of the Majority-in-Interest of Preference Shareholders. Any such redemption may only be effected on a Distribution Date at the applicable Redemption Price and only from the Disposition Proceeds of all Collateral including the Eligible Investment credited to the Accounts (other than that in the [Interest Rate Swap Counterparty Collateral Account and the] Synthetic Security Issuer Account) on such Distribution Date. No Tax Redemption may be effected, however, unless (i) all such Disposition Proceeds are used, in whole or in part, to make such a Tax Redemption, (ii) such Disposition Proceeds are at least equal to the Redemption Amount, (iii) a Tax Event shall have occurred and (iv) the Tax Materiality Condition is satisfied. See "Description of the Notes—Tax Redemption."
Manner of Distribution	The Initial Purchaser is offering the Notes for sale to investors (**"Original Purchasers"**), subject to prior sale when, as and if issued, the approval of certain legal matters by counsel and the satisfaction of certain other conditions: (a) in the United States who are (i) Institutional Accredited Investors in reliance upon an exemption from registration provided by Section 4(2) of the Securities Act, or (ii) Qualified Institutional Buyers in reliance on the exemption from registration provided by Rule 144A and (b) outside the United States to persons that are not U.S. Persons in offshore transactions in reliance on Regulation S and in accordance with any applicable securities laws of any state of

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	the United States and any other relevant jurisdiction. Notes offered for sale to a U.S. resident (within the meaning of the Investment Company Act) will be offered only to Qualified Purchasers. See "Plan of Distribution" and "Transfer Restrictions."
Ratings	It is a condition to the issuance of the Notes that Moody's and Standard & Poor's assign the following ratings to the Notes:

Class	Moody's	S&P
Class A-1 Notes	Aaa	AAA
Class A-2 Notes	Aaa	AAA
Class B Notes	at least Aa2	at least AA
Class C Notes	at least A2	at least A
Class D Notes	at least Baa2	at least BBB
Class E Notes	at least Ba1	at least BB+

The ratings assigned to the Class A Notes and the Class B Notes by Standard & Poor's address the timely payment of interest on, and the ultimate payment of the principal of the Class A Notes and the Class B Notes. The ratings assigned to the Class C Notes, Class D Notes and Class E Notes by Standard & Poor's address the ultimate payment of principal of, and the ultimate payment of interest on, the Class C Notes, Class D Notes and Class E Notes. The ratings assigned to the Notes by Moody's address the ultimate cash receipt of all required payments as provided by the governing documents, and are based on the expected loss to the Noteholders of each Class relative to the promise of receiving the present value of such payments. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision at any time.

Minimum Denominations	The Notes (or interests therein) will be issuable in minimum denominations of U.S.$500,000, and in integral multiples of U.S.$1,000 in excess thereof.
Form, Registration and Transfer of the Notes	The Notes offered in reliance upon Regulation S (**"Regulation S Notes"**) initially will be represented by one or more Temporary Regulation S Global Notes in fully registered form without interest coupons attached, deposited with, and registered in the name of, DTC (or its nominee) initially for the accounts of Euroclear, and/or Clearstream.
	On the 40th day after which all of the Notes of any Class have

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	been sold to investors other than the Initial Purchaser or its Affiliates, and subject to the receipt by the Trustee of a certificate in the form provided by the Indenture from the person holding such interest, a beneficial interest in a Class of Temporary Regulation S Global Notes may be exchanged for an interest in a Permanent Regulation S Global Note of such Class in fully registered form without coupons, in an amount equal to the aggregate principal amount of such interest in the Temporary Regulation S Global Note. Interests in the Regulation S Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants (including Euroclear and Clearstream). Until and including the 40th day after the later of the commencement of the offering and the closing of the offering of the Notes (the **"Distribution Compliance Period"**), interests in a Regulation S Global Note may be held only through Euroclear or Clearstream. The Notes offered in the United States (**"Restricted Notes"**) will be represented by one or more Restricted Global Notes in fully registered form without interest coupons attached, deposited with, and registered in the name of, DTC (or its nominee). Interests in Restricted Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants. The Regulation S Global Notes and the Restricted Global Notes are collectively referred to herein as **"Global Notes."** Under certain limited circumstances described herein, definitive registered Notes may be issued in exchange for Global Notes. No Note (or any interest therein) may be transferred to a transferee acquiring such Note in the form of an interest in a Global Note except (a) to a transferee whom the seller reasonably believes is (i) a Qualified Institutional Buyer that is a Qualified Purchaser or (ii) a non-U.S. Person in an offshore transaction in accordance with Regulation S, (b) in compliance with the certification (if any) and other requirements set forth in the Indenture, and (c) in accordance with any applicable securities laws of any state of the United States and any other relevant jurisdiction. See "Description of the Notes—Form, Denomination, Registration and Transfer" and "Transfer Restrictions."
Listing.....	Application will be made to the Irish Financial Services Regulatory Authority as competent authority under Directive 2003/71/EC, for the prospectus to be approved. Application will be made to the Irish Stock Exchange to admit the Notes to the Official List and trading on its regulated market. Such approval will relate only to Notes which are to be admitted to trading on

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	the regulated market of the Irish Stock Exchange or other regulated markets for the purposes of Directive 93/22/EEC or which are to be offered to the public in any Member State of the European Economic Area. See "Listing and General Information." No application will be made to list the Notes on any other exchange.
Listing Agent and Irish Paying Agent	RSM Robson Rhodes LLP.
Governing Law	The Notes, the Indenture, the Subscription Agreements, the Collateral Administration Agreement, the Management Agreement, any Interest Rate Swap Agreement, each Synthetic Security, the Initial Investment Agreement, the Preference Share Paying Agency Agreement and the Note Purchase Agreement will be governed by the law of the State of New York. The Issuer Charter, the Preference Shares and the Administration Agreement will be governed by the law of the Cayman Islands.
Tax Matters	See "Tax Considerations."
Benefit Plan Investors	See "ERISA Considerations."

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RISK FACTORS

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

Risks Relating to the Notes

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

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

Limited-Recourse Obligations. The Notes and Preference Shares are limited-recourse obligations of the Issuer and the Co-Issuer. The Notes and Preference Shares are payable solely from the Underlying Assets and other Collateral pledged by the Issuer to secure the Notes. None of the security holders, members, officers, directors, managers or incorporators of the Issuer, the Co-Issuer, the Trustee, the Administrator, the Rating Agencies, the Synthetic Security Counterparty, the Offsetting Transaction Counterparty, the Share Trustee, the Collateral Manager, the Initial Purchaser, its Affiliates or any other person or entity will be obligated to make payments on the Notes or Preference Shares. Consequently, the holders of the Notes (the "**Noteholders**") must rely solely on amounts received in respect of the Underlying Assets and other Collateral pledged to secure the Notes for the payment of principal thereof and interest thereon. There can be no assurance that the distributions on the Underlying Assets and other Collateral pledged by the Issuer to secure the Notes will be sufficient to make payments on any Class of Notes, in particular after making payments on more Senior Classes of Notes and certain other required amounts ranking Senior to such Class. The ability of the Issuers to make payments in respect of any Class of Notes or the Preference Shares will be constrained by the terms of the Notes of Classes more Senior to such Notes or Preference Shares and the Indenture. If distributions on the Collateral are insufficient to make payments on the Notes, no other assets will be available for payment of the deficiency and, following liquidation of all the Collateral, the obligations of the Issuers to pay such deficiencies will be extinguished.

Limited Source of Funds to pay Expenses of the Issuer. The funds available to the Issuer to pay its expenses on any Distribution Date are limited to the Fee Cap Amount *plus* an amount up to U.S.$ [ ] *per annum plus* any Interest Proceeds remaining after the payments described in clauses (1) through ([18]) under "Description of the Notes—Priority of Payments—Interest Proceeds" and, in some cases, a portion of the Principal Proceeds remaining after the payments described in clauses (1) through ([12])

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under "Description of the Notes—Priority of Payments—Principal Proceeds." In the event that such funds are not sufficient to pay the expenses incurred by the Issuer, the ability of the Issuer to operate effectively may be impaired, and it may not be able to defend or prosecute legal proceedings brought against it or which it might otherwise bring to protect the interests of the Issuer or pay the expenses of legal proceedings against persons which the Issuer has indemnified.

Subordination of each Class of Subordinate Notes. No payment of interest on any Class of Notes will be made until all accrued interest due and payable on the Notes of each Class that is Senior to such Class has been paid in full. No payment of principal of any Class of Notes will be made until all principal of, and all accrued interest due and payable on, the Notes of each Class that is Senior to such Class have been paid in full, except:

(a) on any Distribution Date occurring on or before the last day of the Priority Distribution Period, Interest Proceeds will be applied, in an amount available for such purpose, if any, on the relevant Distribution Date, to pay principal of the Class D Notes in an amount up to the Class D Priority Redemption Amount for such Distribution Date as set forth in **Schedule G** to this Offering Circular until []% of the aggregate principal amount of the Class D Notes as of the Closing Date is redeemed; and on any Distribution Date occurring after [], []% of the Interest Proceeds that would otherwise be paid to the Preference Share Paying Agent for distribution to the holders of the Preference Shares will be applied to pay principal of the Class D Notes until the Class D Notes are paid in full;

(b) on any Distribution Date occurring on or after the Accelerated Amortization Date and if any Class of Notes is outstanding, Interest Proceeds that would otherwise be paid to the Preference Share Paying Agent for distribution to the Preference Shareholders will be applied to pay, *first*, the principal of the Class E Notes, *second*, the principal of the Class D Notes, *third*, the principal of the Class C Notes, *fourth*, the principal of the Class B Notes, *fifth*, the principal of the Class A-2 Notes and *sixth*, the principal of the Class A-1 Notes, in each case until such Class has been paid in full; and

(c) if the Class E Diversion Test is not satisfied on a Determination Date, Interest Proceeds will be applied on the immediately succeeding Distribution Date to pay principal of the Class E Notes in sufficient amounts to satisfy the Class E Diversion Test. See "Description of the Notes—Priority of Payments."

Payments in respect of the Preference Shares are Subordinated to payments in respect of the Notes. Payments on the Preference Shares will be made only if either Excess Interest or Excess Principal Proceeds remain after making payments on the Notes in accordance with the Priority of Payments.

If an Event of Default occurs, so long as any Notes are outstanding, the holders of the most Senior Class of Notes then outstanding will be entitled to determine the remedies to be exercised under the Indenture. So long as a more Senior Class of Notes remains outstanding, failure to make payments in respect of interest on the Class C Notes, the Class D Notes or the Class E Notes, as the case may be, on any Distribution Date by reason of the Priority of Payments will not constitute an Event of Default under the Indenture. Any such unpaid interest will instead become Deferred Interest. In the event of any realization on the Collateral, proceeds will be allocated to the Notes and payment of other amounts in accordance with the Priority of Payments prior to any distribution to the Preference Shareholders. See "Description of the Notes—The Indenture" and "—Priority of Payments." Remedies pursued by the holders of the Class or Classes of Notes entitled to determine the exercise of such remedies could be

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adverse to the interest of the holders of the other Classes of Notes. To the extent that any losses are suffered by any of the holders of any Notes or Preference Shares, such losses will be borne, *first*, by the holders of the Preference Shares (the **"Preference Shareholders"**), *second*, by the holders of the Class E Notes, *third*, by the holders of the Class D Notes, *fourth*, by the holders of the Class C Notes, *fifth*, by the holders of the Class B Notes, *sixth*, by the holders of the Class A-2 Notes and seventh, by the holders of the Class A-1 Notes.

Volatility of the Class D and Class E Notes. The Class D and Class E Notes represent leveraged investments in the underlying Collateral. Therefore, it is expected that changes in the value of the Class D and Class E Notes will be greater than the change in the value of the Underlying Assets, 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.

Priority Distribution Period; Accelerated Amortization. On any Distribution Date occurring (a)(i) on or before the last day of the Priority Distribution Period, Interest Proceeds will be applied, in an amount available for such purpose, if any, on the relevant Distribution Date, to pay principal of the Class D Notes in an amount up to the Class D Priority Redemption Amount for such Distribution Date as set forth in **Schedule G** to this Offering Circular until []% of the aggregate principal amount of the Class D Notes as of the Closing Date is redeemed; and (ii) on any Distribution Date occurring after [], []% of the Interest Proceeds that would otherwise be paid to the Preference Share Paying Agent for distribution to the holders of the Preference Shares will be applied to pay principal of the Class D Notes until the Class D Notes are paid in full, or

(b) on or after the Accelerated Amortization Date, Interest Proceeds that would otherwise be paid to the Preference Share Paying Agent for distribution to the holders of the Preference Shares will be applied to pay, *first*, the principal of the Class E Notes, *second*, the principal of the Class D Notes, *third*, the principal of the Class C Notes, *fourth*, the principal of the Class B Notes, *fifth*, the principal of the Class A-2 Notes and *sixth*, the principal of the Class A-1 Notes, in each case until such Class has been paid in full. By reason of such application of Interest Proceeds, the Class E Notes may be repaid in full prior to the full repayment of the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes. See "Description of the Notes—Priority of Payments—Interest Proceeds."

Investment Company Act. The Issuers have not registered with the United States Securities and Exchange Commission (the **"SEC"**) as an investment company pursuant to the Investment Company Act. The Issuer has not so registered in reliance on an exception for investment companies organized under the laws of a jurisdiction other than the United States or any state thereof (a) whose investors resident in the United States are solely "qualified purchasers" or "knowledgeable employees" (within the meaning given to such terms in the Investment Company Act and the regulations of the SEC thereunder) with respect to the Issuer or certain transferees thereof identified in Rule 3c-6 under the Investment Company Act and (b) which do not make a public offering of their securities in the United States. U.S. counsel for the Issuers will opine, in connection with the sale of the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class E Notes by the Initial Purchaser and the Preference Shares by the Issuer that neither the Issuer nor the Co-Issuer is on the Closing Date an investment company required to be registered under the Investment Company Act (assuming, for the purposes of such opinion, that the Notes or Preference Shares are sold by the Initial Purchaser or the Issuer, as the case may be, in accordance with the terms of the Note Purchase Agreement or, in the case of the Preference

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Shares and the Class E Notes, the Subscription Agreements). No opinion or no-action position has been requested of the SEC.

To rely on Section 3(c)(7) of the Investment Company Act, the Issuers must have a "reasonable belief" that all purchasers of the Notes and the Preference Shares (including the Initial Purchaser and subsequent transferees) are Qualified Purchasers. Given that transfers of beneficial interests in the Notes will generally be effected only through DTC and its participants and indirect participants without delivery of written transferee certifications to the Issuers, the Issuers will establish the existence of such a reasonable belief by means of the deemed representations, warranties and agreements described under "Transfer Restrictions," the agreements of the Initial Purchaser referred to under "Plan of Distribution" and the procedures described below. Although the SEC has stated that it is possible for an Issuer of securities to satisfy the reasonable belief standard referred to above by establishing procedures to provide a means by which such issuer can make a reasonable determination as to status of its securityholders as Qualified Purchasers, the SEC has not approved, and has stated that it will not approve, any particular set of procedures including the procedures described herein. Accordingly, there can be no assurance that the Issuers will have satisfied the reasonable belief standard referred to above.

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

Each purchaser of a Restricted Note or an interest therein will be deemed to represent and agree at the time of purchase that the purchaser (a) is a Qualified Institutional Buyer (or, in respect of certain Original Purchasers, an Institutional Accredited Investor), (b) is a Qualified Purchaser, (c) (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 and (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 (d) will provide written notice of the foregoing, and of any applicable restrictions on transfer, to any transferee.

The Indenture provides that if, notwithstanding the restrictions on transfer contained therein, either of the Issuers determines that any beneficial owner of a Restricted Note (or any interest therein) (a) is a U.S. Person and (b) is not both a Qualified Institutional Buyer (or, in respect of certain Original Purchasers, an Institutional Accredited Investor) and a Qualified Purchaser, then either of the Issuers may require, by notice to such beneficial owner, that such beneficial owner sell all of its right, title and interest to such Restricted Note (or interest therein) to a person that is (m) a non-U.S. Person in a transfer for an interest in a Regulation S Note, or (n) 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, (x) upon direction from the Collateral Manager or the Issuer, the Trustee, on behalf of and at the expense of the Issuer,

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shall cause such beneficial owner's interest in such Restricted Note to be transferred in a commercially reasonable sale (conducted by an investment bank selected by the Trustee with the consent of the Collateral Manager in accordance with Section 9-610(b) of the Uniform Commercial Code as in effect in the State of New York as applied to securities that are sold on a recognized market or that may decline speedily in value) to a person to whom such Restricted Note (or interest therein) may be transferred in accordance with the transfer restrictions set forth in the Indenture and (y) pending such transfer, no further payments will be made in respect of such Note held by such beneficial owner.

Mandatory Redemption. If a Coverage Test is not satisfied on a Determination Date, Interest Proceeds, to the extent funds are available in accordance with the Priority of Payments and to the extent necessary to restore the Coverage Test to certain minimum required levels, will be used to repay principal of the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class E Notes, sequentially in order of seniority on the immediately succeeding Distribution Date. In addition, certain Principal Proceeds, to the extent available, will be applied on each Distribution Date (after payment of certain other amounts) to repay the principal of each Class of Notes sequentially in direct order of seniority. Any of these events could result in an elimination, deferral or reduction in the interest payments or principal repayments made to the Noteholders or Preference Shareholders, which could adversely impact the returns of the holders of the Notes or Preference Shares. See "Description of the Notes—Principal,"—Mandatory Redemption" and "—Priority of Payments."

Optional Redemption. The Notes may be redeemed, in whole and not in part, pursuant to an Optional Redemption on any Distribution Date on or after the [] Distribution Date at the direction of the holders of at least sixty-six and two-thirds percent (66 2/3%) of the Preference Shares, *provided* that no such Optional Redemption may be effected unless the Redemption Amount is paid in full on the date of such redemption in accordance with the Priority of Payments. See "Description of the Notes—Optional Redemption".

Interests of the holder of the Preference Shares in determining whether to elect to require an Optional Redemption of the Notes may be different from the interests of the holders of the Notes in such respect. The holders of the Notes may not be able to invest the proceeds of the redemption of their Notes in one or more comparable investments providing a return equal to or greater than the return such holders of the Notes expected to obtain from their investment in the Notes.

Auction Call Redemption. On the First Auction Call Date and on each subsequent Auction Date (unless previously redeemed or the holders of at least sixty-six and two-thirds percent (66 2/3%) of the Preference Shares have directed an Optional Redemption), the Notes shall be redeemable, in whole but not in part, pursuant to an Auction Call Redemption effected from (a) the Disposition Proceeds of all Collateral including Eligible Investments credited to the Accounts (other than that in the [Interest Rate Swap Counterparty Collateral Account and the] Synthetic Security Issuer Account), at the applicable Redemption Price; *provided* that no Auction Call Redemption shall be completed except in accordance with the Auction Procedures and unless funds under clauses (a) and (b) are sufficient to pay in full (i) the Redemption Amount and (ii) the Minimum Preference Share Redemption Amount. See "Description of the Notes—Auction Call Redemption" and "Schedule B—Auction Call Redemption—Auction Procedures."

Clean-Up Call Redemption. At the direction of the Collateral Manager, the Notes will be subject to redemption in whole but not in part, at their Redemption Price on or after the Distribution Date on which the aggregate outstanding principal amount of the Notes is less than or equal to []% of the original aggregate outstanding principal amount of the Notes as of the Closing Date; *provided* that any such redemption is subject to certain conditions described below under "Description of the Notes—Clean-Up Call Redemption."

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Tax Redemption. The Issuer may redeem the Notes, in whole but not in part, at the direction of the Majority-in-Interest of Preference Shareholders. Any such redemption may only be effected on a Distribution Date and only from the Disposition Proceeds of all Collateral including the Eligible Investments credited to the Accounts (other than that in the [Interest Rate Swap Counterparty Collateral Account and the] Synthetic Security Issuer Account) on such Distribution Date, at the applicable Redemption Price. No Tax Redemption may be effected, however, unless (i) all such Disposition Proceeds are used, in whole or in part, to make such a Tax Redemption, (ii) such Disposition Proceeds are sufficient to pay in full the Redemption Amount, (iii) a Tax Event shall have occurred and (iv) the Tax Materiality Condition is satisfied. See "Description of the Notes—Tax Redemption." A Tax Redemption, if effected, may reduce amounts that would otherwise be paid to the Preference Share Paying Agent for distribution to the holders of the Preference Shares and, under certain circumstances, the Noteholders, which could adversely impact the returns of the Preference Shareholders and, under those circumstances, the Noteholders.

Accelerated Maturity Date. If an Event of Default occurs and is continuing and the conditions to liquidating the Collateral set forth herein are satisfied, the Trustee will use commercially reasonable efforts to liquidate the Collateral, including the termination or novation of the Synthetic Securities, and terminate any Interest Rate Swap Agreement and any Investment Agreement as per the terms thereof and, on the second Business Day (the **"Accelerated Maturity Date"**) following the Business Day on which the Trustee determines, or the Issuer (or the Collateral Manager on its behalf) notifies the Trustee, that such liquidation and such termination is completed, apply the proceeds thereof in accordance with the Priority of Payments described under "Description of the Notes—Priority of Payments—Interest Proceeds" and "—Principal Proceeds." See "Description of the Notes—The Indenture."

An Accelerated Maturity Date may occur even if there are insufficient proceeds to make any distribution on the Preference Shares or, if the holders of at least 66 2/3% in aggregate outstanding principal amount of each Class of Notes voting as a separate Class so direct, even if there are insufficient funds to pay the Redemption Price of each Class of Notes in full, *provided* that, so long as one or more Affiliates of the Collateral Manager is the holder of at least 66 2/3% in aggregate outstanding principal amount of the Class E Notes, such an Accelerated Maturity Date will require, effectively, the consent of one or more Affiliates of the Collateral Manager.

Termination of Interest Rate Swap Agreement and Liquidation of Collateral Upon Redemption. Any Interest Rate Swap Agreement will terminate upon a Clean Up Call Redemption, Optional Redemption, Tax Redemption or Auction Call Redemption and on the Accelerated Maturity Date, which may require the Issuer to make a termination payment to any Interest Rate Swap Counterparty. Any such termination payment would reduce the proceeds available to be distributed on the Notes. Furthermore, if the Issuer enters into an Interest Rate Swap Agreement, in the event that on any date the Net Outstanding Underlying Asset Balance is less than the Notional Amount of the Interest Rate Swap Transaction, the Notional Amount of the Interest Rate Swap Transaction will be reduced such that the Notional Amount is equal to the Net Outstanding Underlying Asset Balance. The Issuer may owe a termination payment to the Interest Rate Swap Counterparty in connection with any Interest Rate Swap Termination. Any such payment would reduce the proceeds available to be distributed on the Notes. In addition, a Clean-Up Call Redemption, an Optional Redemption, a Tax Redemption, an Auction Call Redemption or the occurrence of an Accelerated Maturity Date may require the Collateral Manager to liquidate positions more rapidly than would otherwise be desirable, which could adversely affect the realized value of the Underlying Assets sold. Moreover, the Collateral Manager may be required, in order to Dispose of all the Underlying Assets, to aggregate Underlying Assets in a block transaction, thereby possibly resulting in a lower realized value for the Underlying Assets sold.

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Early Termination of the Reinvestment Period. Although the Reinvestment Period is expected to terminate on the day after the Payment Date occurring in [], the Reinvestment Period may terminate prior to such date (i) if the Collateral Manager, acting on behalf of the Issuer, notifies the Trustee and the other designated parties that, in light of the composition of the Underlying Assets, general market conditions and other factors, the Collateral Manager (in the Collateral Manager's sole discretion), acting on behalf of the Issuer has determined that investments in additional Assets within the foreseeable future would either be impractical or not beneficial or (ii) upon an Event of Default; *provided that* if the Collateral Manager had previously terminated the Reinvestment Period, the Collateral Manager may (in its sole discretion) reinstate the Reinvestment Period if the notice of reinstatement is delivered prior to the Determination Date for the Distribution Date occurring in [].

If the Reinvestment Period terminates prior to the day after the Distribution Date occurring in [], such early termination may affect the expected average lives of the Notes described under "*Maturity, Prepayment and Yield Considerations*".

Disposition of Underlying Assets by the Collateral Manager Under Certain Circumstances. Under the Indenture, during certain periods, the Collateral Manager has the right, but not the obligation, to Dispose of Underlying Assets that are Credit-Risk Assets, Defaulted Securities or Withholding Securities, subject to satisfaction of the conditions described herein. In addition, during the Reinvestment Period and subject to the satisfaction of certain conditions, the Collateral Manager may Dispose of and acquire other Underlying Assets on a discretionary basis. Such Disposition of Underlying Assets may result in losses by the Issuer, which losses may result in the reduction or withdrawal of the rating of any or all of the Notes by any of the Rating Agencies. On the other hand, circumstances may exist under which it is in the best interests of the Issuer to Dispose of Underlying Assets, but the Collateral Manager does not, or is not permitted to, exercise the right to purchase such assets.

Interest Rate Risk. The Notes bear interest at a rate based on three-month LIBOR as determined on the relevant LIBOR Determination Date. The Asset-Backed Securities will include obligations that bear interest at fixed rates or are subject to interest rate caps and the Synthetic Securities will pay fixed amounts. 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 such Notes and the fixed rate at which interest accrues on the fixed rate Underlying Assets and any limitation on floating rate created on Asset-Backed Securities by related interest rate caps. In addition, any payments of principal of or interest on the Underlying Assets received during a Due Period will be reinvested in Eligible Investments maturing not later than the next Distribution Date. There is no requirement that Eligible Investments bear interest at LIBOR, and the interest rates available for Eligible Investments are inherently uncertain. As a result of these mismatches, an increase in three-month LIBOR could adversely impact the ability of the Issuer to make payments on the Notes. With a view to mitigating a portion of such interest rate mismatch, the Issuer may after the Closing Date and subject to satisfaction of the Rating Condition, enter into an Interest Rate Swap Agreement. Any Interest Rate Swap Agreement will expire after the [] Distribution Date. However, there can be no assurance that the Underlying Assets and Eligible Investments, together with such transactions under any Interest Rate Swap Agreement, will in all circumstances generate sufficient Interest Proceeds to make timely payments of interest on the Notes. Moreover, the benefits of such transactions under an Interest Rate Swap Agreement may not be achieved in the event of the early termination of the Interest Rate Swap Agreement, including termination upon the failure of the Issuer or the related Interest Rate Swap Counterparty to perform its obligations thereunder. See "Security for the Notes—The Interest Rate Swap Agreement."

Pursuant to the Indenture, the Issuer may (i) enter into an Interest Rate Swap Agreement or (ii) enter into an additional Interest Rate Swap Agreement only with the consent of the Collateral Manager and (a) the satisfaction of the Rating Condition and (b) with respect to any additional Interest Rate Swap

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Agreement, the Interest Rate Swap Counterparty consents to such additional Interest Rate Swap Agreement. If an Interest Rate Swap Agreement terminates it may be difficult or impossible for the Issuer to enter into a replacement Interest Rate Swap Agreement and sufficient Interest Proceeds may not be available to pay interest when due on one or more Classes of Notes. If interest is not paid on the most Senior Class of Notes then outstanding, an Event of Default under the Indenture may occur. In limited circumstances specified in the Interest Rate Swap Agreement, the Interest Rate Swap Counterparty may have the unilateral right to reduce the notional amount of such Interest Rate Swap Agreement, in which event the Issuer could be required to pay a termination payment to the Interest Rate Swap Counterparty.

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 and Prepayment Considerations."

The average life of each Class of Notes will be affected by the financial condition of the obligors on or issuers of the Underlying Assets, the characteristics of the Underlying Assets, 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 Underlying Assets and any dividends or other distributions received in respect of Equity Securities and the occurrence of the Auction Call Redemption. See "Maturity and Prepayment Considerations," "Security for the Notes" and "Description of the Notes—Auction Call Redemption."

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

As a condition to the payment of principal of and interest on any Notes without U.S. federal back-up withholding, the Issuers may require the delivery of properly completed and signed applicable U.S. federal income tax certifications (generally, an Internal Revenue Service Form W-9 (or applicable successor form) in the case of a person that is a "United States person" within the meaning of Section 7701(a)(30) of the Code or the applicable Internal Revenue Service Form W-8 BEN (or applicable successor form) in the case of a person that is not a "United States person" within the meaning of Section 7701(a)(30) of the Code).

Additional Taxes. The Issuer expects that payments received on the Underlying Assets, Eligible Investments and any Interest Rate Swap Agreement generally will not be subject to withholding or other taxes imposed by the United States. Payments on the Underlying Assets and Eligible Investments and under any Interest Rate Swap Agreement, however, might become subject to U.S. or other tax due to a change in law or other causes. Payments with respect to Equity Securities likely will be subject to withholding taxes imposed by the United States or other countries from which such payments are sourced. The imposition of unanticipated withholding taxes or tax on the Issuer's net income could materially impair the Issuer's ability to pay principal of and interest on the Notes and dividends and return of capital in respect of the Preference Shares. Upon the occurrence, solely as a result of Cayman Islands law, of any such events set forth in the preceding sentence, the Issuer will use its best endeavors to procure (i) the substitution of a company incorporated in another jurisdiction in which the relevant tax does not apply or (ii) the establishment of a branch office in another jurisdiction in which the relevant tax does not apply from which it will continue to carry out its functions under the Notes, subject in each case

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to the prior receipt by the Issuer and the Trustee of written confirmation from each Rating Agency that the rating of the Notes will not be adversely affected by such substitution or change of jurisdiction. As soon as practicable after such investigation, the Issuer will send written notice to the Trustee as to whether either of such actions will be taken by the Issuer. No assurance can be made that any such actions by the Issuer will eliminate any such withholding taxes or tax on the Issuer's net income.

Risks Relating to the Collateral

Nature of the Collateral. The Underlying Assets are subject to credit, liquidity, interest rate, market operations, fraud, structural, legal and other risks. In addition, during the Reinvestment Period, a significant portion of the Underlying Assets may be amortized or Disposed of after the Closing Date and replaced with new Underlying Assets and accordingly the financial performance of the Issuer may be affected by the price and availability of the Underlying Assets to be acquired. The amount and nature of the Collateral securing the Notes have been established to withstand certain assumed deficiencies in payment occasioned by defaults, writedowns, principal shortfalls and interest shortfalls in respect of the Underlying Assets. See "Ratings of the Notes". If any deficiencies arise, however, payment of the Notes and Preference Shares could be adversely affected. To the extent that a default occurs with respect to any Underlying Asset securing the Notes and the Issuer (upon the advice of the Collateral Manager) Disposes of such Underlying Asset, it is not likely that the proceeds of such Disposition will be equal to the amount of principal and interest owing to the Issuer in respect of such Underlying Asset. To the extent that a credit event occurs with respect to any Reference Obligation underlying any Synthetic Security securing the Notes, the Synthetic Security Counterparty will have an option to deliver to the Issuer such Reference Obligation against the payment by the Issuer of the Physical Settlement Amount (as defined in the related Confirmation). If the Issuer subsequently Disposes of such Reference Obligation, it is not likely that the proceeds thereof will be equal to the amount of principal and interest owing to the Issuer in respect of such Reference Obligation. In addition, if the Issuer is obligated to make a Floating Payment under a Synthetic Security, such Floating Payment would result in a reduction of the Principal/Notional Balance of such Synthetic Security, and, therefore, reduce the amounts payable by the Synthetic Security Counterparty, and reduce the amount of Interest Proceeds available to pay the Notes and Preference Shares. Any Floating Payment would reduce the Collateral that is available to pay the principal of the Notes and Preference Shares, and would expose the Issuer to reinvestment risk.

The market value of the Underlying Assets generally will fluctuate with, among other things, the financial condition of the obligors on or issuers of the Underlying Assets 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.

If an Underlying Asset becomes an Equity Security, Credit-Risk Asset, Defaulted Asset or Withholding Security, the Collateral Manager may or may not elect to Dispose of the affected asset. There can be no assurance as to the timing of the Collateral Manager's purchase of the affected asset, or as to the rates of recovery on such affected asset. The inability to realize immediate recoveries at the recovery levels assumed herein may result in lower cash flow and a lower yield to maturity of the Notes and Preference Shares.

Although the Issuer is permitted to invest in Asset-Backed Securities and Synthetic 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 Eligibility Criteria and the Collateral Quality Tests. At any time there may be a limited universe of investments that would satisfy the Eligibility Criteria and the Collateral Quality Tests given the other investments in the Issuer's portfolio. As a result, the Issuer may at times find it difficult to acquire suitable investments. See "Security for the Notes".

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The ability of the Issuer to Dispose of Underlying Assets prior to maturity is subject to certain restrictions under the Indenture. Notwithstanding such restrictions and satisfaction of the conditions set forth in the Indenture, the acquisition and the Disposition of Underlying Assets could result in losses to the Issuer, which losses could affect the timing and amount of payments in respect of the Notes or Preference Shares or result in the reduction in or withdrawal of the rating on any or all of the Notes by one or more of the Rating Agencies.

Asset-Backed Securities. The Underlying Assets will consist of Asset-Backed Securities, which may include, without limitation, CMBS Securities, RMBS Securities, Automobile Securities, Small Business Loan Securities, Car Rental Fleet Securities, CDO Securities, Credit Card Securities, Equipment Lease Securities and Student Loan Securities, or Synthetic Securities with Reference Obligations as Asset-Backed 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 the Asset-Backed Securities. See "Security for the Notes—Underlying Assets—Asset-Backed Securities".

Holders of Asset-Backed Securities bear various risks, including interest rate risks, market risks, credit risks, liquidity risks, operations risks, structural risks and legal risks. 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 relative seniority or subordination of the class of Asset-Backed Security held by the investor, the process by which principal and interest payments are allocated to investors, how credit losses affect the issuing vehicle and the return to investors, whether collateral represents a static or revolving pool 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 issuing vehicle or to the investors. See "Security for the Notes—Underlying Assets—Asset-Backed Securities" below.

Liquidity risk can arise from an increase in perceived credit risk, as 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 the 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.

If the servicer becomes subject to financial difficulty or otherwise ceases to be able to carry out its function, it may be difficult to find other acceptable substitute servicers and cash flow disruptions or

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losses may occur. Structural and legal risks 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 reductions. Other similar risks relate to the degree to which cash flows on the assets of the Issuer may be commingled with those on the originator's other assets.

Residential ABS Securities. Most of the Underlying Assets will consist of Residential ABS Securities. Residential ABS Securities represent interests in pools of residential mortgage loans secured by one- to four-family residential mortgage loans. Such loans may be prepaid at any time. See "Maturity, Prepayment and Yield Considerations". 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, writedowns, principal shortfalls, interest shortfalls and losses on residential mortgage loans will be affected by a number of factors, including general economic conditions and those in the area where the related mortgaged property is located (including local property values), 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.

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

At any one time, the portfolio of Residential ABS 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, the related mortgaged properties may have a more limited market than those securing average-sized residential mortgage loans.

Each underlying residential mortgage loan in an issue of Residential ABS Securities may have a balloon payment due at its maturity date. Balloon residential mortgage loans involve a greater risk to a lender than self-amortizing loans because the ability of the 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 Residential ABS Securities may experience losses.

Commercial Mortgage-Backed Securities. Asset-Backed Securities include Commercial Mortgage-Backed Securities. Commercial Mortgage-Backed Securities are securities backed by

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obligations (including participation interests in obligations) that are principally secured by mortgages on real property or interests therein having a multifamily or commercial use, such as regional malls, other retail space, office buildings, industrial or warehouse properties, hotels, apartments, cooperatives, nursing homes and senior living centers. Commercial Mortgage-Backed Securities have been issued in public and private transactions by a variety of public and private issuers using a variety of structures, including senior and subordinated classes. Risks affecting real estate investments include general economic conditions, the condition of financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates. The cyclicality and leverage associated with real estate-related investments have historically resulted in periods, including significant periods, of adverse performance, including performance that may be materially more adverse than the performance associated with other investments. In addition, commercial mortgage loans generally are non-recourse loans, lack standardized terms, tend to have shorter maturities than residential mortgage loans and may provide for the payment of all or substantially all of the principal only at maturity. In some cases, the properties securing commercial mortgage loans may be subject to additional debt that may affect the related borrower's ability to refinance the loan and/or result in reduced cash flow and deferred maintenance. 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. All of these factors increase the risks involved with commercial real estate lending. Commercial properties tend to be unique and are more difficult to value than single-family residential properties. Commercial lending is generally viewed as exposing a lender to a greater risk of loss than residential mortgage lending since it typically involves larger loans to a single borrower or related borrowers than residential mortgage lending.

Commercial mortgage lenders typically look to the debt service coverage ratio of a loan secured by income-producing property as an important measure of the risk of default on such a loan. Commercial property values and net operating income are subject to volatility, and net operating income may be sufficient or insufficient to cover debt service on the related mortgage loan at any given time. The repayment of loans secured by income-producing properties is typically dependent upon the successful operation of the related real estate project rather than upon the liquidation value of the underlying real estate or the existence of independent income or assets of the borrower. Furthermore, the net operating income from and value of any commercial property may be adversely affected by risks generally incident to interests in real property, including events which the borrower or manager of the property, or the issuer or servicer of the related issuance of Commercial Mortgage-Backed Securities, 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; acts of God; acts of war; acts of terrorism; and social unrest and civil disturbances. The value of commercial real estate is also subject to a number of laws, such as laws regarding environmental clean-up and limitations on remedies imposed by bankruptcy laws and state laws regarding foreclosures and rights of redemption.

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 cases, the conversion of the commercial property to an alternative use would generally require substantial capital expenditures. Thus, if the borrower becomes unable to meet its obligations under the related commercial mortgage loan, the liquidation value of any such commercial property may be substantially less, relative

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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. The exercise of remedies and successful realization of liquidation proceeds may be highly dependent on the performance of Commercial Mortgage-Backed Securities servicers or special servicers, of which there may be a limited number and which may have conflicts of interest in any given situation.

Commercial Mortgage-Backed Securities may pay fixed or floating rates of interest. Fixed rate Commercial Mortgage-Backed Securities, like all fixed-income securities, generally decline in value as interest rates rise. Moreover, although generally the value of fixed-income securities increases during periods of falling interest rates, this inverse relationship may not be as marked in the case of Commercial Mortgage-Backed Securities due to the increased likelihood of prepayments during periods of falling interest rates. This effect is mitigated to some degree for mortgage loans providing for a period during which no prepayments may be made.

Mortgage loans underlying a Commercial Mortgage-Backed Securities issue may lack regular amortization of principal, resulting in a single "balloon" payment due at maturity. If the underlying mortgage borrower experiences business problems, or other factors limit refinancing alternatives, such balloon payment mortgages are likely to experience payment delays or even default.

Synthetic Securities. A portion of the Underlying Assets may consist of Synthetic Securities, the Reference Obligations of which are Asset-Backed Securities (primarily, Residential ABS Securities). Investments in such types of assets through the acquisition of Synthetic Securities present risks in addition to those resulting from direct acquisition of such Underlying Assets. With respect to Synthetic Securities, the Issuer will have a contractual relationship only with the counterparty of such Synthetic Security, and not the Reference Obligor on the Reference Obligation. The Issuer generally will have no right directly to enforce compliance by the Reference Obligor with the terms of either the Reference Obligation or any rights of set-off against the Reference Obligor, nor will the Issuer generally have any voting or other consensual rights of ownership with respect to the Reference Obligation.

Illiquidity of the Underlying Assets. Some of the Underlying Assets purchased by the Issuer will have no, or only a limited, trading market. The market for Synthetic Securities may be less liquid than the market for certain other types of financial assets. The Issuer's investment in illiquid Underlying Assets 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. Illiquid Underlying Assets may trade at a discount from comparable, more liquid investments. In addition, the Issuer may invest in privately placed Underlying Assets 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 Underlying Assets 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.

Exposure to Credit Risks - the Reference Obligations and the Synthetic Securities Counterparties. The obligation of the Issuer to make payments to each Synthetic Security Counterparty relating to the Synthetic Securities creates exposure to the credit risk of the Reference Obligations related to such Synthetic Securities. The funds available to make payments in respect of principal on the Notes and Preference Shares is dependent upon whether and to what extent payments are due and payable by the Issuer to a Synthetic Security Counterparty relating to the Synthetic Securities. Any settlement payments and termination payments payable by the Issuer (net of termination payments payable by a Synthetic Security Counterparty) due and owing to a Synthetic Security Counterparty will reduce the amount available to pay the obligations of the Issuer to the Noteholders and Preference Shareholdes in inverse order of Seniority. Accordingly, the holders of the Preference Shares and then the Noteholders may lose all or a portion of their investment. The Issuer will not directly benefit from any collateral

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supporting the Reference Obligation and will not have the benefit of the remedies that would normally be available to a holder of such Reference Obligation.

In addition, in the event of the insolvency of the First Synthetic Security Counterparty or any other Synthetic Security Counterparty, the Issuer will be treated as a general unsecured creditor of such counterparty, and will not have any claim of title with respect to the Reference Obligation. Consequently, the Issuer will be subject to the credit risk of the counterparty as well as that of the Reference Obligor. As a result, concentrations of Synthetic Securities entered into with any one counterparty will subject the Notes and Preference Shares to an additional degree of risk with respect to defaults by or the insolvency of such counterparty as well as by the Reference Obligor. One or more Affiliates of the Initial Purchaser may act as counterparty with respect to all or a portion of the Synthetic Securities, which relationship may create certain conflicts of interest. See "—Conflicts of Interest Involving the Initial Purchaser" below.

Additionally, while the Issuer expects that the returns on a Synthetic Security will generally reflect those of the related Reference Obligation, as a result of the terms of the Synthetic Security and the assumption of the credit risk of the Synthetic Security Counterparty, a Synthetic Security may have a different expected return, a different (and potentially greater) probability of default and expected loss characteristics following a default, and a different expected recovery following default. Additionally, when compared to the related Reference Obligation, the terms of a Synthetic Security may provide for different maturities, payment dates, interest rates, interest rate references, credit exposures, or other credit or non-credit related characteristics. Upon maturity, default, acceleration or any other termination (including a put or call) other than pursuant to a credit event (as defined therein) of the Synthetic Security, the terms of the Synthetic Security may permit or require the issuer of such Synthetic Security to satisfy its obligations under the Synthetic Security by delivering to the Issuer securities other than the Reference Obligation or an amount different than the then current market value of the Reference Obligation.

If the Issuer is obligated to make a Floating Amount Payment under a Synthetic Security, such Floating Amount Payment may result in a reduction of the Principal/Notional Balance of such Synthetic Security, and therefore reduce the amounts payable by a Synthetic Security Counterparty and the amount of Interest Proceeds available to pay the Notes and Preference Shares. In addition, any Floating Amount Payment related to writedowns or failure to pay principal will reduce the Aggregate Principal/Notional Balance of Synthetic Securities that are available to pay the principal of the Notes and Preference Shares.

The ability of the Issuer to meet its obligations under the Notes will be dependent on the Issuer's receipt of payments from the Synthetic Security Counterparty pursuant to the Synthetic Securities. Consequently, in addition to relying on the creditworthiness of the reference obligors, the Issuer will also be relying upon the creditworthiness of the Synthetic Security Counterparty to perform its obligations under the Synthetic Securities.

Offsetting Transactions. As described herein, the Issuer may enter into certain Offsetting Transactions intended to hedge the Issuer's credit exposure in relation to certain Synthetic Securities. Such Offsetting Transactions are subject to certain risks including those described above in respect of Synthetic Securities. There can be no guarantee or assurance that any such Offsetting Transactions will effectively hedge all or any of the Issuer's exposure under the applicable Synthetic Security.

Limited Information with Respect to the Reference Obligations. Synthetic Security Counterparties are not required to hold any Reference Obligation. The Issuer will not have any right to obtain from the issuer of the Reference Obligations, any related trustee, fiscal agent, collateral manager or custodian information on the Reference Obligations or information regarding any obligation of any Reference Obligation. Synthetic Security Counterparties will have no obligation to keep the Issuer, the Trustee, the

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Collateral Manager, the Noteholders or the Preference Shareholders informed as to matters arising in relation to any Reference Obligation including whether or not circumstances exist under which there is a possibility of the occurrence of a Credit Event or an obligation to make Floating Amount Payments.

No Legal or Beneficial Interest in Reference Obligations. Under the Synthetic Securities, the Issuer will have a contractual relationship only with the Synthetic Security Counterparty and not with the issuer or obligor of any Reference Obligation. Consequently, the Synthetic Securities do not constitute an acquisition or other acquisition or assignment of any interest in any Reference Obligation. The Issuer generally will have no right to directly enforce compliance by the Reference Obligor with the terms of the Reference Obligation nor any rights of set-off or recourse against the Reference Obligor, nor have any voting or other consensual rights of ownership with respect to the Reference Obligation and will not have the benefit of the remedies that would normally be available to the holder of such Reference Obligation. The Issuer and the Trustee, therefore, will have rights solely against the related Synthetic Security Counterparty in accordance with the Synthetic Securities. In addition, neither a Synthetic Security Counterparty nor its affiliates will be (or deemed to be acting as) the agent or trustee of the Issuer, the Noteholders or the Preference Shareholders in connection with the exercise of, or the failure to exercise, any of the rights or powers of a Synthetic Security Counterparty and/or its affiliates arising under or in connection with their respective holding of any Reference Obligation. Each Synthetic Security Counterparty and its affiliates (i) may deal in any Reference Obligation, (ii) may generally engage in any kind of commercial or investment banking or other business transactions with any issuer of a Reference Obligation, and (iii) may act with respect to transactions described in the preceding clauses (i) and (ii) in the same manner as if a Synthetic Security Counterparty and the Notes did not exist and without regard to whether any such action might have an adverse affect on such Reference Obligation, the Issuer, the Preference Shareholders or the Noteholders.

Legal Risk relating to the Synthetic Securities. Initially the Synthetic Securities will be structured as "Pay As You Go" credit default swaps. "Pay As You Go" credit default swaps are a type of credit default swap that has been developed recently to reference, and incorporate certain terms of the unique structures of, Asset-Backed Securities. On November 10, 2006, the International Swaps and Derivatives Association, Inc. (**"ISDA"**) published its revised form of confirmation and a Standard Terms Supplement for a "Pay As You Go" transaction on a mortgage-backed security (the **"MBS Pay As You Go Form"**). On June 7, 2006 ISDA published its form of confirmation for a "Pay As You Go" transaction on a collateralized debt obligation (the **"CDO Pay As You Go Form"** and, together with the MBS Pay As You Go Form, the **"Pay As You Go Forms"**). It is expected that the Synthetic Securities to which the Issuer will be a party will be based on modified versions of the Pay As You Go Forms. See "*Security for the Notes*" herein. While ISDA has published the Pay As You Go Forms and has published and supplemented the Credit Derivatives Definitions in order to facilitate transactions and promote uniformity in the credit default swap market, the credit default swap market is expected to change and the Pay As You Go Forms and the Credit Derivatives Definitions and terms applied to credit derivatives are subject to interpretation and further evolution. There can be no assurance that such forms will be substantially similar to the form Confirmations. Past events have shown that the views of market participants may differ as to how the Credit Derivatives Definitions operate or should operate. As a result of the continued evolution of the Pay As You Go Forms, each of the Synthetic Security confirmations to which the Issuer is from time to time a party may differ from the future market standard. Any difference between the Pay As You Go Forms and the forms used for the Synthetic Securities may have a negative impact on the liquidity and market value of such Synthetic Securities.

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 or investors in the Notes or Preference Shares. Amendments or supplements to the "Pay-As-You-Go" credit default swap

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forms and amendments and supplements to the Credit Derivatives Definitions that are published by ISDA will not apply to the Synthetic Securities executed prior to such amendment or supplement unless the Issuer and the related Synthetic Security Counterparty agree to amend the Synthetic Securities to incorporate such amendments or supplements, and the Rating Condition is satisfied. In addition, the Issuer and the Synthetic Security Counterparty may enter into additional Synthetic Securities that incorporate such amendments and supplements as long as the Rating Condition has been satisfied. Markets in different jurisdictions have also already adopted and may continue to adopt different practices with respect to the Credit Derivatives Definitions. Furthermore, the Credit Derivatives Definitions may contain ambiguous provisions that are subject to interpretation and may result in consequences that are adverse to the Issuer. In addition to the credit risk of the Reference Obligations and the credit risk of the related Synthetic Security Counterparty, 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 investors in the Notes or Preference Shares or that the credit derivatives market generally may evolve in a manner that would be adverse to the Issuer or investors in the Notes or Preference Shares.

Synthetic Security Collateral Account and the Reliance on the Credit Worthiness of Eligible Investments held therein. The Synthetic Securities may require the Issuer to secure its obligations with respect to each such Synthetic Security. As directed by the Collateral Manager in writing, cash on deposit in the Synthetic Security Collateral Account on behalf of each Synthetic Security Counterparty will be invested in Eligible Investments. Amounts on deposit in the Synthetic Security Collateral Account will be applied, as directed by the Collateral Manager, to the payment of any amounts owed by the Issuer to each Synthetic Security Counterparty on the date any such amounts are due. Any Excess Collateral Account Amount will be withdrawn from the Synthetic Security Collateral Account and deposited to the Disposition Proceeds Account; *provided* that to the extent that any such withdrawal from the Synthetic Security Collateral Account would require a withdrawal from any Investment Agreement, such withdrawal may only be made in accordance with the terms of such Investment Agreement. Any income on Eligible Investments contained in the Synthetic Security Collateral Account will be withdrawn from such account and deposited in the Collection Account for distribution as Interest Proceeds. Cash and Eligible Investments on deposit in the Synthetic Security Collateral Account will be included in the Collateral to the extent provided under "Security for the Notes—General" herein, will not be available to make payments under the Notes or Preference Shares and shall not be considered to be an asset of the Issuer for purposes of any of the Collateral Quality Tests or the Coverage Tests, but the Synthetic Securities that relate to such Synthetic Security Collateral Account shall be considered an asset of the Issuer. The Issuer will bear the risk of any losses with respect to the Eligible Investments held in the Synthetic Security Collateral Account. Therefore, with respect to each Synthetic Security, the Issuer bears the risk of the Reference Obligation, the related Synthetic Security Counterparty and the credit and market risks relating to the Eligible Investments including credit risk with respect to any Investment Agreement that secure the Issuer's obligations with respect to such Synthetic Security.

Reliance on Creditworthiness of Investment Agreements. The amounts on deposit in the Synthetic Security Collateral Account are expected to be invested in Eligible Investments consisting initially of the Initial Investment Agreement and, accordingly, the Issuer will be exposed to the creditworthiness of the Initial Investment Agreement Provider. The insolvency of the Initial Investment Agreement Provider or a default by such parties under the Initial Investment Agreement, respectively, would adversely affect the ability of the Issuer to pay principal and interest when due under the Notes and distributions in respect of the Preference Shares and could result in a downgrade of the ratings on the Notes.

If an Investment Agreement is terminated as a result of an event of default or an uncured ratings downgrade condition as specified therein, the Issuer may enter into one or more replacement investment

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agreements (each a **"Replacement Investment Agreement"**), and accordingly, the Issuer will be exposed to the creditworthiness of the related Replacement Investment Agreement provider (each a **"Replacement Investment Agreement Provider"**). See "Description of the Initial Investment Agreement—The Initial Investment Agreement".

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 and, therefore, credit ratings 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 Asset-Backed Securities and Reference Obligations will be used by the Collateral Manager only as a preliminary indicator of investment quality. Investments in non-investment grade and comparable unrated obligations will be more dependent on the Collateral Manager's credit analysis than would be the case with investments in investment-grade debt obligations.

International Investing. A limited portion of the Underlying Assets may consist of obligations of issuers organized under the law of the Bahamas, Bermuda, the Cayman Islands, the Channel Islands or the Netherlands Antilles. Moreover, 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: (a) less publicly available information; (b) varying levels of governmental regulation and supervision; and (c) the difficulty of enforcing legal rights in a foreign jurisdiction and uncertainties as to the status, interpretation and application of laws. Moreover, foreign companies are not subject to accounting, auditing and financial reporting standards, practices and requirements comparable to those applicable to U.S. companies.

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

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 Underlying Assets acquisitions due to settlement problems or the risk of intermediary counterparty failures could cause the Issuer to miss investment opportunities. The inability to Dispose of an Underlying Asset due to settlement problems could result either in losses to the Issuer due to subsequent declines in the value of such Underlying Asset 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

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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.

Other Considerations

Certain Conflicts of Interest. The activities of the Collateral Manager, the Initial Purchaser and its 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 investment activities of the Collateral Manager and its Affiliates. The Collateral Manager and its Affiliates may invest or invest for the account of others in debt obligations that would be appropriate as security for the Notes and have no duty in making such investments or to act in a way that is favorable to the Issuer, the Noteholders or the Preference Shareholders. Such investments may be different from those made on behalf of the Issuer. The Collateral Manager and its Affiliates may have economic interests in, or other relationships with, Issuers in whose obligations or securities the Issuer may invest. In particular, a substantial portion of the Underlying Assets acquired by the Issuer from the Initial Purchaser were sold to the Initial Purchaser from portfolios of securities held by one or more of the Collateral Manager and its Affiliates. In addition, the Collateral Manager or its Affiliates 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 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 Underlying Assets") make investment recommendations and decisions that may be the same as or different from those made with respect to the Issuer's investments.

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.

The Collateral Manager also serves as a manager of one or more other companies organized to invest in Asset-Backed Securities. The Collateral Manager and its Affiliates may pursue its own interests as an owner of other securities issued by an Issuer of Underlying Assets, without considering the effect of its actions or omissions on the Issuer. In addition, the Collateral Manager may act as the Auction Agent in an Auction Call Redemption of the Notes or may resign as Auction Agent and bid on any Underlying Assets that are sold pursuant to an Auction Call Redemption.

One or more Affiliates of the Collateral Manager will acquire all of the Preference Shares and may purchase some or all of the Class E Notes on the Closing Date. Pursuant to the Management Agreement, the Collateral Manager, in its capacity as holder of, or an advisor to the holder of Class E Notes and Preference Shares may, in such capacity, act in a manner which it determines to be in the best interests of a holder of Class E Notes and/or Preference Shares, without regard to the effect on the interests of other Noteholders. In addition, the Collateral Manager and its Affiliates may at times own any other Class of Notes. A portion of the purchase price of Notes and the Preference Shares to be acquired by the Collateral Manager or its Affiliates may be financed by the Initial Purchaser. At any given time, the Collateral Manager and its Affiliates will not be entitled to vote the Notes or Preference Shares beneficially owned by the Collateral Manager or any Affiliate thereof or by an account or fund for which

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the Collateral Manager or an Affiliate thereof acts as the investment adviser (with discretionary authority) (**"Collateral Manager Securities"**) with respect to any vote or consent on any assignment or termination of the Management Agreement (including the exercise of any rights to remove the Collateral Manager or terminate the Management Agreement) or any amendment or other modification of the 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 the Notes and Preference Shares held by them with respect to all other matters. For purposes hereof, **"Affiliate"** means, with respect to any person, (a) any other person who, directly or indirectly, is in control of, or controlled by, or is under common control with, such person, (b) any other person who is a director, officer, employee, managing member or general partner of (i) such person or (ii) any such other person described in clause (a) above, or (c) with respect to the Collateral Manager, any account or fund for which the Collateral Manager or any of the foregoing acts as investment advisor with discretionary authority. For the purposes of the foregoing definition, control of a person shall mean the power, direct or indirect, (x) to vote more than 50% of the securities having ordinary voting power for the election of directors of such person or (y) to direct or cause the direction of the management and policies of such person whether by contract or otherwise. The ownership of some or all of the Class E Notes and all of the Preference Shares by one or more Affiliates of the Collateral Manager may give the Collateral Manager an incentive to take actions that vary from the interests of the holders of the Notes.

Conflicts of Interest Involving the Initial Purchaser. Certain of the Asset-Backed Securities acquired by the Issuer may consist of obligations of issuers or obligors, or obligations sponsored or serviced by companies, for which DBSI as the Initial Purchaser or an Affiliate of DBSI has acted as underwriter, agent, placement agent or dealer or for which an Affiliate of DBSI has acted as lender or provided other administrative, commercial or investment banking services. In addition, if not the Auction Agent, the Initial Purchaser may bid on the Underlying Assets at any time the Issuer Disposes of an Underlying Asset. In addition, an Affiliate of the Initial Purchaser will be the First Synthetic Security Counterparty and may be Offsetting Transaction Counterparty. Also, as described under "Use of Proceeds", the Issuer, DBSI and Deutsche Bank AG Cayman Islands Branch (the **"Warehouse Lender"**), an Affiliate of DBSI, have entered into a credit agreement (the **"Warehouse Credit Agreement"**), pursuant to which the Warehouse Lender has financed the acquisition of certain Asset-Backed Securities and the payment of certain transaction-related fees and expenses prior to the Closing Date. On the Closing Date, the net proceeds from the sale of the Notes and the Preference Shares will be used by the Issuer to repay in full all amounts owing by the Issuer to the Warehouse Lender relating to the Warehouse Credit Agreement, and such revolving credit facility, along with the lien on the Asset-Backed Securities, the Offsetting Transactions and the Synthetic Securities securing it, will be terminated. See "Use of Proceeds".

Conflicts of Interest involving the Synthetic Security Counterparties and the Offsetting Transaction Counterparty. The First Synthetic Security Counterparty is an Affiliate of the Initial Purchaser and the Offsetting Transaction Counterparty may be an Affiliate of the Initial Purchaser. Each Synthetic Security Counterparty or Offsetting Transaction Counterparty may take actions under the related Synthetic Securities or Offsetting Transactions or otherwise that may be inconsistent with or adverse to the interests of the Noteholders. Synthetic Security Counterparties will not be obligated to take any action to minimize losses with respect to any Reference Obligation. In addition, each Synthetic Security Counterparty or Offsetting Transaction Counterparty has the right in the event of an assignment of a Synthetic Security (or Offsetting Transaction, as applicable) to reject any replacement for the Issuer, such right not to be unreasonably exercised. In deciding whether to approve or reject a replacement for the Issuer, the Synthetic Security Counterparty does not have to consider the interests of the Issuer or the Noteholders. See "Security for the Notes—Underlying Assets—Synthetic Securities—Assignment".

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Each Synthetic Security Counterparty, each Offsetting Transaction Counterparty and each of their affiliates may deal in any obligations or other securities of any Reference Obligor (including, but not limited to, any Reference Obligations), may enter into other credit derivatives involving entities that may include the Reference Obligors or their affiliates or sponsors (including credit derivatives to hedge its obligations under the Synthetic Securities or Offsetting Transactions), 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 Reference Obligor, any affiliate or sponsor of any Reference Obligor or any other person or other entity having obligations relating to any Reference Obligor or affiliate or sponsor of such Reference Obligor, and may act with respect to such business in the same manner as if the related Synthetic Securities and/or Offsetting Transactions did not exist, regardless of whether any such relationship or action might have an adverse effect on any Reference Obligations (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 transaction described herein or otherwise. Each Synthetic Security Counterparty, each Offsetting Transaction Counterparty and each of their affiliates may, whether by reason of the types of relationships described herein or otherwise, on the date hereof or at any time hereafter, be in possession of information in relation to any Reference Obligation, Reference Obligor or any of such Reference Obligor's sponsors or affiliates, that is or may be material in the context of the related Synthetic Securities or Offsetting Transactions and the other transaction documents and that may or may not be publicly available or known to the other parties to the transaction documents and which information each Synthetic Security Counterparty, each Offsetting Transaction Counterparty or their affiliates may be prohibited from using for the benefit of the Issuer. The Synthetic Securities, Offsetting Transactions and the other transaction documents do not create any obligation on the part of the related Synthetic Security Counterparty (or Offsetting Transaction Counterparty) and its affiliates to disclose to any other such party any such information (whether or not confidential). In addition, with respect to the deletion or addition of Reference Obligations in connection with any trading activity undertaken by the Collateral Manager on behalf of the Issuer, the related Synthetic Security Counterparty (or Offsetting Transaction Counterparty) is not obligated to agree to any such deletion or addition of a Reference Obligation and may make its decision whether to agree to any such deletion or addition on the basis of its own best interests and without regard to the interests of the Issuer or the Noteholders.

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 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 or the Initial Purchaser 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 Notes and Preference Shares. Such legislation and/or regulations could require the Issuer to implement additional restrictions on the transfer of the Notes and Preference Shares or interests therein. The Issuer reserves the right to request such information as is necessary to verify the identity of investors in the Notes and Preference Shares 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 Notes, Preference Shares or interests therein and the subscription monies relating thereto may be refused. In connection with the establishment of anti-money

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laundering procedures, the Issuer may implement additional restrictions on the transfer of Notes or Preference Shares.

Purchase of Underlying Assets. The Issuer will acquire Underlying Assets from a warehouse facility (the "**Warehouse Facility**") provided by an affiliate of DBSI, which provides for the purchase of Asset-Backed Securities at the direction of the Collateral Manager on behalf of the Issuer prior to the Closing Date. In addition, a substantial portion of the Underlying Assets purchased by the Issuer are securities from portfolios of Asset-Backed Securities held, directly or indirectly, by the Collateral Manager or one or more Affiliates of, or investment funds managed by, the Collateral Manager.

Some of the Underlying Assets subject to the Warehouse Facility may have been originally acquired by DBSI or one of its Affiliates in connection with its underwriting or placement thereof upon issuance thereof or from the Collateral Manager or one of its Affiliates. The Warehouse Facility requires the Issuer to purchase Asset-Backed Securities eligible for inclusion in the Collateral on the Closing Date at a price equal to the price paid when DBSI or its Affiliate acquired such Asset-Backed Securities pursuant to the Warehouse Facility, plus accrued interest thereon, and net of any hedging gains or losses. As a result, the Issuer bears the risk of depreciation in the value of an Asset-Backed Security purchased under the Warehouse Facility. The Issuer will purchase, and DBSI and its Affiliates under the Warehouse Facility will sell, Asset-Backed Securities only to the extent that the Collateral Manager determines that such purchases are consistent with the restrictions contained in the Indenture.

If any such seller 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 could assert that Asset-Backed Securities acquired from such seller are property of such seller's insolvency estate. Property that such seller has pledged or assigned, or in which such seller has granted a security interest, as collateral security for the payment or performance of an obligation, would be property of such seller's estate. Property that such seller has sold or absolutely assigned and transferred to another party, however, is not property of such seller's estate. The Issuer does not expect that the purchase by the Issuer of Asset-Backed Securities, under the circumstances contemplated by this Offering Circular, will be deemed to be a pledge or collateral assignment (as opposed to the sale or other absolute transfer of such Asset-Backed Securities to the Issuer).

Relation to Prior Investment Results. The prior investment results of the Collateral Manager and the persons associated with the Collateral Manager or any other entity or person described herein are not indicative of the Issuer's future investment results. The nature of, and risks associated with, the Issuer's future investments may differ substantially from those investments and strategies undertaken historically by such persons and entities. There can be no assurance that the Issuer's investments will perform as well as the past investments of any such persons or entities.

Projections, Forecasts and Estimates. Any projections, forecasts and estimates contained herein are forward looking statements and are based upon certain assumptions that the Collateral Manager considers 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 actual allocation of the Underlying Assets among asset categories from those identified on **Schedule A**, mismatches between the timing of accrual and receipt of Interest Proceeds and Principal Proceeds from the Underlying Assets, defaults under Underlying Assets and the effectiveness of any

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Interest Rate Swap 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 Purchaser or its 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 Purchaser, its affiliates or 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.

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DESCRIPTION OF THE NOTES

The Notes will be issued pursuant to the Indenture. The following summary describes certain provisions of the Notes and the Indenture. This summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the Indenture. Copies of the Indenture may be obtained by prospective investors upon request to the Trustee at 1761 East St. Andrew Place, Santa Ana, California 92705, or to RSM Robson Rhodes LLP (the **"Irish Paying Agent"**), at RSM House, Herbert Street, Dublin 2, Ireland.

Status and Security

The Notes will be limited-recourse debt obligations of the Issuers. 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 and *sixth*, Class E Notes, with (a) each Class of Notes (other than the Class E Notes) in such list being **"Senior"** to each other Class of Notes that follows such Class of Notes in such list and (b) each Class of Notes (other than the Class A-1 Notes) in such list being **"Subordinate"** to each other Class of Notes that precedes such Class of Notes in such list. No payment of interest on any Class of Notes will be made until all accrued and unpaid interest on the Notes of each Class that is Senior to such Class and that remains outstanding has been paid in full in accordance with the Priority of Payments. Certain Principal Proceeds, to the extent available, will be applied on each Distribution Date in accordance with the Priority of Payments to pay principal of each Class of Notes.

Under the terms of the Indenture, the Issuer will grant to the Trustee for the benefit of the Secured Parties a first priority security interest in the Collateral described herein to secure the Issuer's obligations under the Indenture, the Notes, any Interest Rate Swap Agreement, the Synthetic Security Agreement, the Investment Agreement and the Management Agreement.

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

Interest

The Class A-1 Notes will bear interest at a floating rate *per annum* equal to LIBOR *plus* [ ]%.

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

The Class B Notes will bear interest at a floating rate *per annum* equal to LIBOR *plus* [ ]%.

The Class C Notes will bear interest at a floating rate *per annum* equal to LIBOR *plus* [ ]%.

The Class D Notes will bear interest at a floating rate *per annum* equal to LIBOR *plus* [ ]%.

The Class E Notes will bear interest at a floating rate *per annum* equal to LIBOR *plus* [ ]%.

Interest on the Notes will be computed on the basis of a 360-day year and the actual number of days elapsed. Interest will accrue on the aggregate outstanding principal amount of each Class of Notes (determined as of the first day of each Interest Period and after giving effect to any redemption or other payment of principal occurring on such day) from the Closing Date. Interest accruing for any Interest

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Period will accrue for the period from and including the first day of such Interest Period to and including the last day of such Interest Period.

Accrued and unpaid interest will be payable in U.S. Dollars quarterly in arrears on the [ ] day of each [],[],[]and [] commencing on [], 2007 (each such date, together with the Accelerated Maturity Date, a **"Distribution Date"**); *provided* that (i) the final scheduled Distribution Date shall be, with respect to each Class of Notes, the [] Distribution Date, and (ii) if any such date is not a Business Day, the relevant Distribution Date will be the next succeeding Business Day.

In the event that any Distribution Date falls on a date 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 nominal Distribution Date, and any interest accrued for the period from or after such nominal date to the next succeeding Business Day shall not be payable on such Business Day but shall be payable on the next following Distribution Date.

As long as the Class A Notes, the Class B Notes, the Class C Notes or the Class D Notes are outstanding, if either Coverage Test applicable to such Class of Notes is not satisfied on any Determination Date, then Interest Proceeds that would otherwise be used to make payments in respect of interest on any Class of Notes Subordinate to such Class will be used instead to redeem, *first*, each Class (if any) of Notes Senior to such Class of Notes (sequentially in direct order of seniority) and, *second*, such Class of Notes, until each applicable Coverage Test is satisfied. See "—Priority of Payments."

Any interest on the Class C Notes, the Class D Notes and the Class E Notes that is not paid to such Class when due will be deferred (such interest being referred to herein as **"Deferred Interest"**; Deferred Interest in the case of the Class C Notes being referred to herein as **"Class C Deferred Interest"**, Deferred Interest in the case of the Class D Notes being referred to herein as **"Class D Deferred Interest"** and Deferred Interest in the case of the Class E Notes being referred to herein as **"Class E Deferred Interest"**); *provided* that no accrued interest on a Class of Notes shall become Deferred Interest unless a more Senior Class of Notes is then outstanding. Interest will accrue on the aggregate outstanding deferred amount at the rates of interest applicable to that Class of Notes. Upon the payment of Deferred Interest, the aggregate outstanding deferred amount with respect to the related Class of Notes will be reduced by the amount of such payment. So long as any more Senior Class of Notes remains outstanding, failure to make payment in respect of interest on the Class C Notes, the Class D Notes or the Class E Notes on any Distribution Date by reason of Priority of Payments will not constitute an Event of Default under the Indenture.

Interest will cease to accrue on each Note or, in the case of a partial repayment, on such part, from the date of repayment or Stated Maturity unless payment of principal is improperly withheld or unless default is otherwise made with respect to such payments. To the extent lawful and enforceable, interest on any Defaulted Interest on any Note will accrue at the interest rate applicable to such Note until paid. **"Defaulted Interest"** means any interest due and payable in respect of any Class A Note or any Class B Note or, if no Class A Notes or Class B Notes are outstanding, any Class C Note (other than Class C Deferred Interest), if no Class C Notes are outstanding, any Class D Notes (other than Class D Deferred Interest) or, if no Class D Notes are outstanding, any Class E Note (other than Class E Deferred Interest) that is not punctually paid or duly provided for on the applicable Distribution Date or at Stated Maturity. Defaulted Interest will not include Deferred Interest.

"Interest Period" means (a) with respect to the [] Distribution Date (the **"First Distribution Date"**) the period from, and including, the Closing Date to and excluding the First Distribution Date, and (b) with respect to each Distribution Date thereafter, the period from, and including, the immediately preceding Distribution Date and ending on, but excluding, such Distribution Date.

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

(a) LIBOR for any Interest Period shall equal the offered rate, as determined by the Calculation Agent, for Dollar deposits of the Designated Maturity which appears on Telerate Page 3750 (or such other page as may replace such Telerate Page 3750 for the purpose of displaying comparable rates), as reported by Bloomberg Financial Markets Commodities News, as of 11:00 a.m. (London time) on the applicable LIBOR Determination Date. **"LIBOR Determination Date"** means, with respect to any Interest Period, the second London Banking Day prior to the first day of such Interest Period.

(b) If, on any LIBOR Determination Date, such rate does not appear on Telerate Page 3750 (or such other page as may replace such Telerate Page 3750 for the purpose of displaying comparable rates), as reported by Bloomberg Financial Markets Commodities News, the Calculation Agent shall determine the arithmetic mean of the offered quotations of the Reference Banks to prime banks in the London interbank market for Dollar deposits of three months (except that in the case where such Interest Period shall commence on a day that is not a LIBOR Business Day, for a term of three months commencing on the next following LIBOR Business Day), by reference to requests for quotations as of approximately 11:00 a.m. (London time) on such LIBOR Determination Date made by the Calculation Agent to the Reference Banks. If, on any LIBOR Determination Date, at least two of the Reference Banks provide such quotations, LIBOR shall equal such arithmetic mean. If, on any LIBOR Determination Date, fewer than two Reference Banks provide such quotations, LIBOR shall be deemed to be the arithmetic mean of the offered quotations that leading banks in New York City selected by the Calculation Agent are quoting on the relevant LIBOR Determination Date for Dollar deposits for the term of such Interest Period (except that in the case where such Interest Period shall commence on a day that is not a LIBOR Business Day, for a term of three months commencing on the next following LIBOR Business Day), to the principal London offices of leading banks in the London interbank market.

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

(d) If the Calculation Agent is required but is unable to determine a rate in accordance with either procedure described in clauses (a) and (b) above, LIBOR with respect to such Interest Period shall be the arithmetic mean of the offered quotations of the Reference Dealers as of 10:00 a.m. (New York time) on the 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.

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

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

As used in the calculation of LIBOR above and elsewhere in this Offering Circular:

"Base Rate" means a fluctuating rate of interest determined by the Calculation Agent as being the rate of interest most recently announced by the Base Rate Reference Bank at its New York office as its 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 Deutsche Bank Trust Company Americas, 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 after consultation with the Collateral Manager.

"Designated Maturity" means, with respect to any Class of Notes for each Interest Period, three months; *provided that*, with respect to the First Distribution Date, the Designated Maturity shall be [] days.

"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 after consultation with the Collateral Manager.

"Reference Dealers" means three major dealers in the secondary market for U.S. Dollar certificates of deposit, selected by the Calculation Agent after consultation with the Collateral Manager.

For so long as any Note remains outstanding, the 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. (London time) on the Business Day immediately following each LIBOR Determination Date, the Calculation Agent will calculate the interest rate for each Class of Notes for the related Interest Period and the amount of interest for such Interest Period payable in respect of each U.S.$1,000 in principal amount 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 Issuers, the Trustee, each Paying Agent, Euroclear, Clearstream, DTC and (for so long as any Class of Notes is listed on the Irish Stock Exchange) the Irish Stock Exchange.

The Calculation Agent may be removed by the Issuers at any time. If the Calculation Agent is unable or unwilling to act as such or is removed by the Issuers, the Issuers will promptly appoint as a replacement Calculation Agent a leading bank that is engaged in transactions in Dollar deposits in the international Eurodollar market and which does not control and is not controlled by or under common

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control with either of the Issuers or any affiliate thereof. The Calculation Agent may not resign its duties without a successor having been duly appointed. The determination of the interest rate for each Class of Notes for each Interest Period by the Calculation Agent shall (in the absence of manifest error) be final and binding upon all parties.

Principal

The Stated Maturity of each Class of Notes is the [] Distribution Date. Each Class of Notes will mature at the Stated Maturity unless redeemed or repaid prior to the Stated Maturity. However, the Notes may be paid in full prior to their Stated Maturity. With respect to each Class of Notes, the earlier of the Stated Maturity and the Distribution Date on which the aggregate principal amount of such Class of Notes is paid in full, including a Redemption Date or an Accelerated Maturity Date, is referred to herein as the **"Final Maturity Date"**. See "Risk Factors—Average Life of the Notes and Prepayment Considerations" and "Maturity and Prepayment Considerations." Any payment of principal with respect to any Class of Notes (including any payment of principal made in connection with the Final Maturity Date) 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.

Principal Proceeds will be applied on each Distribution Date in accordance with the Priority of Payments to pay principal of each Class of Notes. No payment of principal of any Class of Notes will be made until all principal of, and all accrued interest due and payable on, the Notes of each Class that is Senior to such Class have been paid in full.

However:

(a) on each Distribution Date occurring on or before the last day of the Priority Distribution Period, Interest Proceeds will be applied, in an amount available for such purpose, if any, on the relevant Distribution Date, to pay principal of the Class D Notes in an amount up to the Class D Priority Redemption Amount for such Distribution Date as set forth in **Schedule G** to this Offering Circular until []% of the aggregate principal amount of the Class D Notes as of the Closing Date is redeemed; and on any Distribution Date occurring after [], []% of the Interest Proceeds that would otherwise be paid to the Preference Share Paying Agent for distribution to the holders of the Preference Shares will be applied to pay principal of the Class D Notes until the Class D Notes are paid in full;

(b) if no Optional Redemption, Auction Call Redemption, Clean-Up Call Redemption or Tax Redemption has been successfully completed before the Accelerated Amortization Date, on any Distribution Date occurring on or after the Accelerated Amortization Date, Interest Proceeds that would otherwise be paid to the Preference Share Paying Agent for distribution to the Preference Shareholders will be applied to pay, *first*, the principal of the Class E Notes, *second*, the principal of the Class D Notes, *third*, the principal of the Class C Notes, *fourth*, the principal of the Class B Notes, *fifth*, the principal of the Class A-2 Notes and *sixth*, the principal of the Class A-1 Notes, in each case until such Class has been paid in full; and

(c) if the Class E Diversion Test is not satisfied on a Determination Date, Interest Proceeds will be applied on the immediately succeeding Distribution Date to pay principal of the Class E Notes in sufficient amounts to satisfy the Class E Diversion Test. See "Description of the Notes—Priority of Payments."

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Payments

Payments in respect of principal of and interest on any Note will be made to the person in whose name such Note is registered fifteen days prior to the applicable Distribution Date (the **"Record Date"**). Payments on each Note will be payable by wire transfer in immediately available funds to a Dollar-denominated account maintained by the holder thereof in accordance with wire transfer instructions received by any paying agent appointed under the Indenture (each, a **"Paying Agent"**) on or before the Record Date or, if no wire transfer instructions are received by a Paying Agent in respect of such Note, by a Dollar-denominated 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. **"Business Day"** means any day other than Saturday, Sunday or a day on which banking institutions are authorized or obligated by law, regulation or executive order to close in New York City, London or the city of the designated corporate trust office of the Trustee or, in the case of the final payment of principal of a Note or distribution of Excess Principal Proceeds with respect to a Preference Share, in the place of presentation of such Note or Preference Share. To the extent action is required of the Issuer that has not been delegated to the Trustee, the Collateral Manager or any agent of the Issuer located outside of the Cayman Islands, the Cayman Islands shall be considered in determining "Business Day" for purposes of determining when such Issuer action is required. To the extent action is required of the Irish Paying Agent, Ireland shall be considered in determining "Business Day" for purposes of determining when such Irish Paying Agent action is required.

For so long as the Notes are listed on the Irish Stock Exchange and the rules of such exchange shall so require, the Issuers will maintain a listing agent and a Paying Agent with an office in Ireland.

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

Priority of Payments

With respect to any Distribution Date, collections received on the Collateral during each Due Period in respect of the Collateral will be divided into Interest Proceeds and Principal Proceeds and applied in the priority set forth below under **"—Interest Proceeds"** and **"—Principal Proceeds,"** respectively (collectively, the **"Priority of Payments"**). **"Due Period"** means, with respect to any Distribution Date, the period commencing immediately following the fifth Business Day prior to the 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 fifth Business Day prior to such Distribution Date (or, in the case of the Due Period that is

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applicable to the Distribution Date relating to the Stated Maturity of the Notes, such Due Period shall end on the day preceding the Stated Maturity).

Interest Proceeds. On each Distribution Date, Interest Proceeds with respect to the related Due Period will be distributed in the order of priority set forth below:

(1) to the payment of taxes, government fees and registered office fees owed by the Issuers, if any;

(2) up to a maximum amount on any Distribution Date equal to the Fee Cap Amount *plus* an amount up to U.S.$ [ ] *per annum*, (a) *first*, in the following order of priority, to the payment to the Trustee, the Preference Share Paying Agent, the Collateral Administrator and the Administrator of accrued and unpaid fees owing to them under the Indenture; (b) *second*, to the payment of other accrued and unpaid administrative expenses (including indemnities) incurred by or on behalf of the Issuers (including any administrative expenses payable to the Collateral Manager, but excluding the Management Fee and the Auction Agent Fee, if applicable), *provided* that administrative expenses payable to Deutsche Bank Trust Company Americas (in all of its capacities) shall be paid prior to administrative expenses payable to any other party under this clause (2), administrative expenses payable to the Administrator shall be paid prior to administrative expenses payable to any party other than Deutsche Bank Trust Company Americas under this clause (2), and that administrative expenses payable to parties other than the Trustee and Administrator shall be paid *pro rata*; and (c) *third*, prior to the date on which amounts on deposit in the Expense Account are transferred to the Payment Account (in connection with the sale or disposition of substantially all of the Issuer's assets) for application as Interest Proceeds, for deposit in the Expense Account an amount equal to the lesser of (x) an amount sufficient to cause the balance of all Eligible Investments and cash in the Expense Account, immediately after such deposit, to equal U.S.$ [ ], and (y) the amount by which the Fee Cap Amount exceeds the sums paid under clauses (a) and (b);

(3) to the payment, *pro rata*, of any amount scheduled to be paid (i) to the relevant Interest Rate Swap Counterparty pursuant to any Interest Rate Swap Agreement, together with termination payments (and any accrued interest thereon) payable by the Issuer pursuant to any such Interest Rate Swap Agreement and the Synthetic Securities other than amounts payable by reason of an event of default or termination event as to which an Interest Rate Swap Counterparty under an Interest Rate Swap Agreement or the Synthetic Security Counterparty under the Synthetic Securities is the "defaulting party" or the sole "affected party" and (ii) to the Offsetting Transaction Counterparty pursuant to any Offsetting Transactions together with termination payments (and any accrued interest thereon) payable by the Issuer pursuant to any such Offsetting Transaction other than amounts payable by reason of an event of default or termination event as to which an Offsetting Transaction Counterparty is the "defaulting party" or the sole "affected party;"

(4) to the payment to the Collateral Manager of the accrued and unpaid Management Fee;

(5) *first* to the payment of accrued and unpaid interest on the Class A-1 Notes (including Defaulted Interest and any interest thereon) and *second*, to the payment of accrued and unpaid interest on the Class A-2 Notes (including Defaulted Interest and any interest thereon);

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(6) to the payment of accrued and unpaid interest on the Class B Notes (including Defaulted Interest and any interest thereon);

(7) if either Class A/B Coverage Test is not satisfied on the related Determination Date and if any Class A Note or Class B Note remains outstanding, to the payment of principal of, first, the Class A-1 Notes, second, the Class A-2 Notes and third, the Class B Notes, to the extent necessary to cause each Class A/B Coverage Test to be satisfied;

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

(9) if either Class C Coverage Test is not satisfied on the related Determination Date and if any Class A Note, Class B Note or Class C Note remains outstanding, to the payment of principal of, first, the Class A-1 Notes, second, the Class A-2 Notes, third, the Class B Notes and fourth, the Class C Notes, to the extent necessary to cause each of the Class C Coverage Tests to be satisfied;

(10) to the payment of Class C Deferred Interest, if any;

(11) to the payment of accrued and unpaid interest on the Class D Notes (including Defaulted Interest and any interest thereon and interest on Class D Deferred Interest, if any, but excluding any Class D Deferred Interest);

(12) if either Class D Coverage Test is not satisfied on the related Determination Date and if any Class A Note, Class B Note, Class C Note or Class D Note remains outstanding, to the payment of principal of, first, the Class A-1 Notes, second, the Class A-2 Notes, third, the Class B Notes, fourth, the Class C Notes and fifth, the Class D Notes, to the extent necessary to cause each of the Class D Coverage Tests to be satisfied;

(13) to the payment of Class D Deferred Interest, if any;

(14) to the payment of accrued and unpaid interest on the Class E Notes (including Defaulted Interest and interest thereon and interest on Class E Deferred Interest, if any, but excluding any Class E Deferred Interest);

(15) to the payment of Class E Deferred Interest, if any;

(16) if the Class E Diversion Test is not satisfied on the related Determination Date and if any Class A Note, Class B Note, Class C Note, Class D Note or Class E Note remains outstanding, to the payment of principal of the Class E Notes, to the extent necessary to cause the Class E Diversion Test to be satisfied;

(17) (i) on any Distribution Date occurring on or before the last day of the Priority Distribution Period, to the payment of principal of the Class D Notes in an amount up to the Class D Priority Redemption Amount for such Distribution Date as set forth in **Schedule G** to this Offering Circular until []% of the aggregate principal amount of the Class D Notes as of the Closing Date is redeemed; and (ii) on any Distribution Date occurring after the [] Distribution Date to the payment of principal of the Class D Notes until the Class D Notes are paid in full in an amount equal to []% of the Interest Proceeds that would otherwise be paid on such Distribution Date under clause (21) below but for the application of this clause (17);

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(18) to the payment, *pro rata*, of any termination payments (and any accrued interest thereon) payable by the Issuer pursuant to any Interest Rate Swap Agreement, the Synthetic Securities or the Offsetting Transactions by reason of an event of default or termination event as to which an Interest Rate Swap Counterparty under an Interest Rate Swap Agreement or the Synthetic Security Counterparty under the Synthetic Securities or the Offsetting Transaction Counterparty under the Offsetting Transactions is the "defaulting party" or the sole "affected party";

(19) to the payment of all other accrued and unpaid administrative expenses of the Issuers (including any accrued and unpaid fees and expenses owing to the Trustee, the Note Registrar, the Preference Share Paying Agent, the Collateral Manager (other than the Management Fee), the Auction Agent, the Share Registrar and the Administrator under the Indenture, the Management Agreement, the Preference Share Paying Agency Agreement and the Administration Agreement) not paid in full pursuant to and in the order stated in clause (2) above (whether as the result of the limitations on amounts set forth therein or otherwise);

(20) if no Optional Redemption, Auction Call Redemption, Clean-Up Call Redemption or Tax Redemption has been successfully completed before the Accelerated Amortization Date, on any Distribution Date occurring on or after the Accelerated Amortization Date, first, to the payment of principal of the Class E Notes until the Class E Notes have been paid in full, second to the payment of principal of the Class D Notes until the Class D Notes have been paid in full, third, to the payment of principal of the Class C Notes until the Class C Notes have been paid in full, fourth, to the payment of principal of the Class B Notes until the Class B Notes have been paid in full, fifth, to the payment of principal of the Class A-2 Notes until the Class A-2 Notes have been paid in full; and sixth, to the payment of principal of the Class A-1 Notes until the Class A-1 Notes have been paid in full; and

(21) the remainder (**"Excess Interest"**), to be released from the lien of the Indenture and paid (upon standing order of the Issuer) to the Preference Share Paying Agent for deposit into the Preference Share Payment Account for payment to the holders of the Preference Shares as a distribution by way of dividend thereon.

Principal Proceeds. On each Distribution Date, Principal Proceeds with respect to the related Due Period will be distributed in the order of priority set forth below:

(1) to the payment of the amounts referred to in clauses (1) through (6) under "—Interest Proceeds" in the same order of priority specified therein, but only to the extent not paid in full thereunder;

(2) so long as each of the Overcollateralization Tests is in compliance (after application of payments under all clauses under "— Interest Proceeds" and clause (1) above) and remains in compliance (after giving effect to the payments in this clause (2)), to the payment of accrued and unpaid interest on the Class C Notes, but only to the extent not paid in full in clause (8) under "—Interest Proceeds";

(3) (i) so long as each of the Overcollateralization Tests is in compliance (after application of payments under all clauses under "—Interest Proceeds" and clauses (1) and (2) above) and remains in compliance (after giving effect to the payments in this clause (3)), to the payment of accrued and unpaid interest on the Class D Notes, but only to the extent not paid in full in clause (11) under "— Interest Proceeds"; and (ii) during the Reinvestment

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Period, Principal Proceeds from the Disposition of, or principal payments on, Underlying Assets that are Investment Grade may at the Collateral Manager's sole discretion (exercised on behalf of the Issuer) be deposited into (x) the Collection Account for investment on a later date in additional Underlying Assets that are Investment Grade, or (y) the Synthetic Collateral Account to be invested in Eligible Investments, in each case, in accordance with the Eligibility Criteria and the Collateral Quality Tests as more fully described herein;

(4) to the payment of principal of the Class A-1 Notes until the Class A-1 Notes have been paid in full;

(5) to the payment of principal of the Class A-2 Notes until the Class A-2 Notes have been paid in full;

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

(7) to the payment of amounts referred to in clause (8) and then clause (9) under "—Interest Proceeds," but only to the extent not paid in full thereunder or under clause (2) above;

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

(9) to the payment of amounts referred to in clauses (11) and (12) under "—Interest Proceeds," but only to the extent not paid in full thereunder or under clause (3) above;

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

(11) to the payment of amounts referred to in clauses (14) and (15) under "—Interest Proceeds," but only to the extent not paid in full thereunder;

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

(13) to the payment of amounts referred to in clauses (18) and (19) under "—Interest Proceeds" in the same order of priority, but only to the extent not paid in full thereunder; and

(14) with respect to the remainder (**"Excess Principal Proceeds"**), to be released from the lien of the Indenture and paid (upon standing order of the Issuer) to the Preference Share Paying Agent for deposit into the Preference Share Payment Account for payment to the Preference Shareholders as a dividend on the Preference Shares or (on any date upon which the Preference Shares are redeemed) as payment by way of redemption of the Preference Shares as provided in the Issuer Charter.

Notwithstanding any of the foregoing provisions, on the Final Maturity Date, the Interest Proceeds, the Principal Proceeds and any funds in the Expense Account will be distributed in the following order of priority: (i) to make payments of the amounts referred to in clauses (1) through (4) under "—Interest Proceeds" in the same order of priority specified therein; (ii) to make payments on the Notes in the following order: *first*, to the payment of the accrued and unpaid interest (including any Defaulted Interest and any interest thereon) on the Class A-1 Notes, and then to the payment of the

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accrued and unpaid interest (including any Defaulted Interest and any interest thereon) on the Class A-2 Notes, *second*, to the payment of the aggregate principal amount of the Class A-1 Notes and then to the payment of the aggregate principal amount of the Class A-2 Notes, *third*, to the payment of the accrued and unpaid interest (including Defaulted Interest and any interest thereon) on the Class B Notes and then to the payment of the aggregate principal amount of the Class B Notes, *fourth*, to the payment of the accrued and unpaid interest (including any Class C Deferred Interest and any interest thereon, and any Defaulted Interest and any interest thereon) on the Class C Notes and then to the payment of the aggregate principal amount of the Class C Notes, *fifth*, to the payment of the accrued and unpaid interest (including any Class D Deferred Interest and any interest thereon, and any Defaulted Interest and any interest thereon) on the Class D Notes and then to the payment of the aggregate principal amount of the Class D Notes, and *sixth*, to the payment of the accrued and unpaid interest (including any Class E Deferred Interest and any interest thereon, and any Defaulted Interest and any interest thereon) on the Class E Notes and then to the payment of the aggregate principal amount of the Class E Notes, until each class is paid in full; (iii) to make payments of the amounts referred to in clauses (18) and (19) under "—Interest Proceeds" in the same order of priority specified therein and (iv) the remainder to make dividend or redemption payments, as applicable, to the Preference Shareholders.

In the event that Excess Interest or Excess Principal Proceeds cannot be distributed to the Preference Shareholders due to restrictions on such distributions under the laws of the Cayman Islands, the Issuer will notify the Preference Share Paying Agent and all such amounts will be held in the Preference Share Payment Account until the First Distribution Date or (in the case of any payment otherwise due on a redemption date of the Preference Shares) the first Business Day on which the Issuer notifies the Preference Share Paying Agent that such distribution can be made to the Preference Shareholders (subject to the availability of such amounts under Cayman Islands law to pay any liability of the Issuer not limited in recourse to the Collateral).

Except as otherwise expressly provided in the Priority of Payments, if, on any Distribution Date, the amount available in the Payment Account from amounts received in the related Due Period is insufficient to make the full amount of the disbursements required by any paragraph in this section to different Persons, the Trustee will make the disbursements called for by such paragraph ratably in accordance with the respective amounts of such disbursements then due and payable to the extent funds are available therefor.

On or prior to the latest Stated Maturity of the Notes, a redemption of the Preference Shares, a Mandatory Redemption, a Tax Redemption, a Clean-Up Call Redemption or an Auction Call Redemption, the Issuer (or the Collateral Manager acting pursuant to the Management Agreement on behalf of the Issuer) will Dispose of all of the Underlying Assets and all Eligible Investments and sell or liquidate all other Collateral; and, after the payment (in the order of priorities set forth above) of all (a) fees, (b) expenses (including any amount owing by the Issuer under any Interest Rate Swap Agreement), (c) interest (including any Defaulted Interest and interest on Defaulted Interest and any Deferred Interest and interest on Deferred Interest) on and principal of the Notes and (d) Excess Interest in respect of the Preference Shares, all remaining proceeds from such sales and liquidations and all available cash will be paid to the Preference Share Paying Agent for deposit into the Preference Share Payment Account for (subject to the restrictions on distributions under the laws of the Cayman Islands) payment to the Preference Shareholders as a distribution by way of redemption, whereupon all of the Notes and Preference Shares will be cancelled. The Issuer will be entitled to retain for its own account the [250] shares of common stock it holds in the Co-Issuer, the US$[250] representing its share capital and U.S.$[250] representing a profit fee to the Issuer, together with any interest accrued thereon.

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"Accelerated Amortization Date" means, if no Optional Redemption, Auction Call Redemption, Clean-Up Call Redemption or Tax Redemption has been successfully completed before the [] Distribution Date, such date.

"Aggregate Principal/Notional Balance" means, (i) when used with respect to one or more Underlying Assets, the sum of the Principal/Notional Balances of such Underlying Assets on the date of determination, and (ii) with respect to Eligible Investments, the aggregate Balance of such Eligible Investments.

"Applicable Recovery Rate" means, with respect to any Underlying Asset (which shall mean with respect to a Synthetic Security, the related Reference Obligation) on any Measurement Date, an amount equal to the lower of (a) the percentage for such Underlying Asset set forth in the Moody's Recovery Rate Matrix attached as **Schedule F** hereto in (i) the applicable table therein, (ii) the row in such table opposite the applicable percentage of the underlying capital structure and (iii) the column in such table below the Moody's Rating of such Underlying Asset as of the date of issuance of such Underlying Asset, or (b) the percentage for such Underlying Asset set forth in the Standard & Poor's Recovery Matrix attached as **Schedule E** hereto in (i) the applicable table, (ii) the row in such table opposite the Standard & Poor's Rating of such Underlying Asset as of the date of issuance of such Underlying Asset and (iii)(x) for purposes of determining the Standard & Poor's Recovery Rate, the column in such table below the current rating of the respective Class of Notes or (y) for purposes of determining the Calculation Amount, the column in such table below the current rating of the most senior Class of Notes outstanding.

"Bankruptcy Event" means with respect to any entity: (a) an involuntary proceeding shall be commenced or an involuntary petition shall be filed seeking (i) winding up, liquidation, reorganization or other relief in respect of such entity or its debts, or of a substantial part of its assets, under any bankruptcy, insolvency, receivership or similar law now or hereafter in effect or (ii) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for such entity or for a substantial part of its assets, and, in any such case, such proceeding or petition shall continue undismissed for 60 days; or an order or decree approving or ordering any of the foregoing shall be entered; or (b) such entity shall (i) voluntarily commence any proceeding or file any petition seeking winding up, liquidation, reorganization or other relief under any bankruptcy, insolvency, receivership or similar law now or hereafter in effect, (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or petition described in clause (a) of this definition, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for such entity or for a substantial part of its assets, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, or (v) make a general assignment for the benefit of creditors or (vi) take any action for the purpose of effecting any of the foregoing.

"Calculation Amount" means, with respect to any Defaulted Asset at any time, the lesser of (a) the fair market value of such Defaulted Asset as determined by the Collateral Manager and (b) the amount obtained by *multiplying* the Applicable Recovery Rate *by* the Principal/Notional Balance of such Defaulted Asset.

"Convertible Bond" means a bond, debenture or other fixed income security which may be exchanged by the owner for common stock or another security, usually of the same company, in accordance with the terms of the issue.

"Defaulted Asset" means any Underlying Asset (which shall mean with respect to a Synthetic Security, the related Reference Obligation) or any other security included in the Collateral:

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(a) as to which (i) the issuer thereof has failed to make a scheduled payment of principal or interest without giving effect to any grace period or waiver; *provided* that a payment default of up to three (3) Business Days with respect to which the Collateral Manager certifies in writing to the Trustee, in its reasonable judgment, is due to non-credit and non-fraud related reasons shall not cause an Underlying Asset to be classified as a Defaulted Asset or (ii) pursuant to its Underlying Instruments, there has occurred any default or event of default which entitles the holders thereof, with notice or passage of time or both, to accelerate the maturity (whether by mandatory prepayment, mandatory redemption or otherwise) of all or a portion of the outstanding principal amount of such security, unless (A) in the case of a default or event of default consisting of a failure of the obligor on such security to make required interest payments, such security has resumed current payments of interest in cash (*provided* that no restructuring has been effected) or (B) in the case of any other default or event of default, such default or event of default is no longer continuing;

(b) that ranks *pari passu* with or subordinate to any other material indebtedness for borrowed money owed by the issuer of such Underlying Asset (for purposes hereof, **"Other Indebtedness"**) if such issuer had defaulted in the payment of principal or interest with respect to such Other Indebtedness; *provided* that a payment default of up to three (3) Business Days with respect to which the Collateral Manager certifies in writing to the Trustee, in its reasonable judgment, is due to non-credit and non-fraud related reasons shall not cause an Underlying Asset to be classified as a Defaulted Asset; *provided, further*, that in the case of a default or event of default consisting of a failure of the obligor on such security to make required interest payments, such Other Indebtedness has resumed current payments of interest (including all accrued interest) in cash (whether or not any waiver or restructuring has been effected), *provided* that a security shall be considered a Defaulted Asset pursuant to this clause (b) only if either (I) such default or event of default results in the assignment of a rating of "CC" or lower or "D" or "SD" by Standard & Poor's or "Ca" or "C" by Moody's, or (ii) the Collateral Manager, based upon due inquiry in accordance with the practices and procedures followed by investment managers of recognized standing, has obtained knowledge of such default or event of default and any characterization by the Collateral Manager of such security other than as a "Defaulted Asset" fails to satisfy the Rating Condition;

(c) as to which a Bankruptcy Event has occurred and is continuing with respect to an entity that is: (i) with respect to securities issued by an issuer directly, the special purpose entity that is the issuer of such securities, or (ii) with respect to securities issued by trusts to which an entity deposits assets, either (A) the special purpose entity that is the depositor to the trust that issues such securities, or (B) the trust that issues such securities;

(d) that is rated (i) "CC" or lower or "D" or "SD" by Standard & Poor's or a rating withdrawn by Standard & Poor's, or (ii) "Ca" or "C" by Moody's;

(e) in respect of any Underlying Asset that is a PIK Bond, of which there has been a failure to pay interest (i) in a cumulative amount equal or exceeding the interest due during one payment period (if such Underlying Asset is rated (or privately rated for purposes of the issuance of the Underlying Asset) below "Baa3" by Moody's) or (ii) for two consecutive payment periods even if by its terms it provides for the deferral and capitalization of interest thereon, but only until such time as payment of interest on such Underlying Asset

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has resumed and all deferred interest has been paid in accordance with the terms of the related Underlying Instrument; or

(f) which is a Synthetic Security with respect to which the relevant Synthetic Security Counterparty has defaulted in the performance of its payment obligations under such Synthetic Security.

"Deferred Interest PIK Bond" means a PIK Bond with respect to which payment of interest either in whole or in part has been deferred in an amount equal to (a) if such PIK Bond has a Moody's Rating of at least "Baa3", the amount of interest payable in respect of the lesser of (x) two payment periods and (y) a period of one year; or (b) if such PIK Bond has a Moody's Rating of below "Baa3", the amount of interest payable in respect of the lesser of (x) one payment period and (y) a period of six months, but only until such time as payment of interest on such PIK Bond has resumed and all capitalized and deferred interest has been paid in accordance with the terms of the relevant Underlying Instruments.

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

"Discount Underlying Asset" means

(i) any Underlying Asset (other than a Defaulted Asset or a Deferred Interest PIK Bond) that is a Floating Rate Security and has a Moody's Rating of "Aa3" or higher acquired by the Issuer after the Closing Date for an acquisition price of less than [92]% of the Principal/Notional Balance of such Underlying Asset, unless the market value for such Underlying Asset equals or exceeds [95]% of the Principal/Notional Balance of such Underlying Asset (as certified by the Collateral Manager to the Trustee) for 60 consecutive days,

(ii) any Underlying Asset (other than a Defaulted Asset or a Deferred Interest PIK Bond) that is a Fixed Rate Security and has a Moody's Rating of "Aa3" or higher acquired by the Issuer after the Closing Date for an acquisition price of less than [85]% of the Principal/Notional Balance of such Underlying Asset, unless the market value for such Underlying Asset equals or exceeds [90]% of the Principal/Notional Balance of such Underlying Asset (as certified by the Collateral Manager to the Trustee) for 60 consecutive days and

(iii) any Underlying Asset (other than a Defaulted Asset or a Deferred Interest PIK Bond) that has a Moody's Rating below "Aa3" acquired by the Issuer after the Closing Date for an acquisition price of less than [75]% of the Principal/Notional Balance of such Underlying Asset; *provided* that such Underlying Asset shall cease to be a Discount Underlying Asset at such time as the market value of such Underlying Asset equals or exceeds [85]% of the Principal/Notional Balance of such Underlying Asset (as certified by the Collateral Manager to the Trustee) for 60 consecutive days.

"Eligible Country" means a Group I Country or a Group II Country, Austria, Denmark or a country that is an Eligible SPV Jurisdiction, provided that, at the time of such acquisition of any Asset, such country has a foreign currency credit rating of at least "AA" by Standard & Poor's and "Aa2" from Moody's.

"Eligible SPV Jurisdiction" means the Bahamas, the British Virgin Islands, the Cayman Islands, Bermuda, Luxembourg, the Netherlands Antilles, the Channel Islands, Jersey, Guernsey or (subject to satisfaction of the Rating Agency Condition) any similar jurisdiction, provided that the related obligor or issuer is a special purpose entity.

"Excepted Property" means (a) the Preference Share Payment Account and all of the funds and other property from time to time deposited in or credited to the Preference Share Payment Account and

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the proceeds thereof, (b) the [250] shares of common stock of the Co-Issuer, par value U.S.$1.00 per share, owned by the Issuer, (c) U.S.$[250] representing the paid share capital on the ordinary shares of the Issuer, and (d) U.S.$[250] representing a profit fee to the Issuer, together with any interest accruing thereon, and the trust account in which such monies are held.

"Fee Cap Amount" means, on any Distribution Date, []% of the Quarterly Asset Amount *per annum* subject to an annual minimum of $[].

"Floating Rate Security" means (i) any Asset-Backed Security that is expressly stated to bear interest based upon a floating rate index and (ii) any Synthetic Security or Offset Transaction so designated by the Collateral Manager at the time of purchase.

"Fixed Rate Security" means any Asset-Backed Security other than a Floating Rate Security.

"Group I Countries" means Australia, Canada, the Netherlands and the United Kingdom.

"Group II Countries" means Germany, Ireland, New Zealand, Sweden and Switzerland.

"Interest Only Security" means an Asset-Backed Security that does not provide for the repayment of a stated principal amount in one or more installments on or prior to the date three Business Days prior to the Stated Maturity of the Notes.

"Interest Proceeds" means, with respect to any Due Period:

(1) the sum (without duplication) of

(a) all payments of interest and other income on the Underlying Assets and Delivered Obligations (other than Defaulted Securities) received in cash during such Due Period;

(b) all payments of interest (including any amount representing the accreted portion of a discount from the face amount of an Eligible Investment) on Eligible Investments in the Collection Accounts 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;

(c) 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 Underlying Assets and Eligible Investments (other than fees and commissions received in respect of Defaulted Securities and Written Down Securities and yield maintenance payments included in Principal Proceeds pursuant to clause (c) and clause (j) of the definition thereof);

(d) all payments of interest received in respect of a Defaulted Asset in excess of an amount equal to the Principal/Notional Balance of such security at the time it became a Defaulted Asset;

(e) all accrued interest received in cash by the Issuer in connection with the sale or liquidation of any Underlying Asset other than accrued interest purchased with Principal Proceeds;

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(f) all payments received pursuant to any Interest Rate Swap Agreement (excluding any payments received by the Issuer by reason of an event of default or termination event) *less* any deferred premium payments, if any, payable by the Issuer under such Interest Rate Swap Agreement with respect to such Due Period;

(g) (i) any amounts received from each Synthetic Security Counterparty relating to each Synthetic Security with respect to such Due Period (including any Fixed Amounts and Interest Shortfall Reimbursement Payment Amounts (as defined in **Schedule H** in the case of Reference Obligations that are RMBS Securities, **Schedule I** in the case of Reference Obligations that are ABX Tranche Securities, **Schedule J** in the case of Reference Obligations that are CMBS Securities or **Schedule K** in the case of Reference Obligations that are CDO Securities) but excluding, for the avoidance of doubt, any premium relating to the following Due Period), other than Writedown Reimbursement Payment Amounts, Principal Shortfall Reimbursement Payment Amounts (each as defined in **Schedule H** in the case of Reference Obligations that are RMBS Securities, **Schedule I** in the case of Reference Obligations that are ABX Tranche Securities, **Schedule J** in the case of Reference Obligations that are CMBS Securities or **Schedule K** in the case of Reference Obligations that are CDO Securities), any upfront payment or any termination payment received with respect to early termination of a Synthetic Security (including proceeds from liquidation of any collateral posted by the Synthetic Security Counterparty to secure its obligations under the Synthetic Securities); (ii), without duplication, any Net Scheduled Periodic Offsetting Transaction Payments received by the Issuer with respect to Offset Transactions;

(h) all earnings on Eligible Investments on deposit in the Synthetic Security Collateral Account that are transferred to the Interest Collection Account as described below under "Security for the Notes—The Accounts—Synthetic Security Collateral Account";

(i) all Earnings (as defined in the related Investment Agreement) received by the Issuer and payable under the Investment Agreement on or before the related Distribution Date; and

(j) all amounts on deposit in the Expense Account that are transferred to the Payment Account for application as Interest Proceeds as described below under "Security for the Notes—The Accounts—Expense Account"; *provided* that Interest Proceeds shall in no event include (i) any payment or proceeds specifically defined as "Principal Proceeds" in the definition thereof or (ii) the Excepted Property;

minus

(2) the sum of (i) any Interest Shortfall Amounts paid by the Issuer to each Synthetic Security Counterparty and (ii) any initial payments made by the Issuer to the Offsetting Transaction Counterparty in connection with the entry into an Offsetting Transaction.

"**Issue**" means an Underlying Asset or Synthetic Security consisting of or referencing a single Asset-Backed Security, identified by its (i) series and class, and (ii) CUSIP number or other identifying

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number. For the avoidance of doubt, Underlying Assets or Synthetic Securities consisting of or referencing two Asset-Backed Securities issued by the same issuer and issued in the same series, but in separate classes or tranches, shall be deemed to be separate Issues.

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

"Margin Stock" means "Margin stock" as defined under Regulations T, U and X issued by the Board of Governors of the Federal Reserve System.

"Measurement Date" means any of the following: (a) any date after the Closing Date on which an Underlying Asset becomes a Defaulted Asset, (b) each Determination Date, (c) the last Business Day of any calendar month (other than the month prior to which there is a Determination Date), and (d) with reasonable notice to the Issuer and the Trustee, any other Business Day that any Rating Agency 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.

"Negative Amortization Security" means an Asset-Backed Security whose underlying portfolio consists of at least [25]% of mortgages with a negative amortization feature.

"Net Outstanding Underlying Asset Balance" means, as of any Measurement Date, an amount equal to (a) the sum of (i) the Aggregate Principal/Notional Balance on such Measurement Date of all Underlying Assets, (ii) the Aggregate Principal/Notional Balance of all Principal Proceeds and Uninvested Proceeds held as cash, all Disposition Proceeds on deposit in the Disposition Proceeds Account and Eligible Investments purchased with Principal Proceeds or Uninvested Proceeds, and (iii) for each Defaulted Asset, the Calculation Amount with respect to such Defaulted Asset *minus* (b) the sum of the Aggregate Principal/Notional Balance on such Measurement Date of all Underlying Assets that are either (i) Defaulted Securities or (ii) Equity Securities; *provided* that solely for the purpose of calculating the Net Outstanding Underlying Asset Balance in connection with the Class A/B Overcollateralization Ratio, the Class C Overcollateralization Ratio, the Class D Overcollateralization Ratio and the Class E Diversion Test the Net Outstanding Underlying Asset Balance shall be deemed to equal the lesser of the Moody's Haircut Value and the Standard & Poor's Haircut Value, as determined as set forth below:

For the purposes of this definition of "Net Outstanding Underlying Asset Balance", the following terms shall have the meanings set forth below:

"Moody's Haircut Value" shall have the following meaning for any Underlying Asset that has a Moody's Rating of below "Baa3", and no meaning for any Underlying Asset with a Moody's Rating of "Baa3" or higher (for the purpose of all clauses of the definition of Moody's Haircut Value, any reference to a Moody's Rating of an Underlying Asset shall, with respect to a Synthetic Security, mean a reference to the Moody's Rating of the related Reference Obligation):

(a) if on any date the Aggregate Principal/Notional Balance (determined without regard to this clause (a)) of all Underlying Assets (other than Defaulted Assets and Deferred Interest PIK Bonds) that have a Moody's Rating of "Ba1", "Ba2" or "Ba3" exceeds []% of the Aggregate Principal/Notional Balance of all Underlying Assets and Principal Proceeds (**"Moody's Limit 1"**), then the Aggregate Principal/Notional Balance of the Underlying Assets constituting such excess

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shall be deemed to equal 90% of the actual Aggregate Principal/Notional Balance of such Underlying Assets (determined without regard to this clause (a));

(b) if on any date the Aggregate Principal/Notional Balance (determined without regard to this clause (b)) of all Underlying Assets (other than Defaulted Assets and Deferred Interest PIK Bonds) that have a Moody's Rating of "B1", "B2" or "B3" exceeds [0]% of the Aggregate Principal/Notional Balance of all Underlying Assets and Principal Proceeds (**"Moody's Limit 2"**), then the Aggregate Principal/Notional Balance of the Underlying Assets constituting such excess shall be deemed to equal 80% of the actual Aggregate Principal/Notional Balance of such Underlying Assets (determined without regard to this clause (b)); and

(c) if such Underlying Assets (other than Defaulted Assets and Deferred Interest PIK Bonds) have a Moody's Rating of below "B3" exceeds [0]% of the Aggregate Principal/Notional Balance of all Underlying Assets and Principal Proceeds, then the Aggregate Principal/Notional Balance of such Underlying Assets shall be deemed to equal 50% of the actual Aggregate Principal/Notional Balance of such Underlying Assets (determined without regard to this clause (c));

provided that the reductions contemplated by clauses (a), (b) and (c) immediately above shall be without duplication; *provided further* that each of Moody's Limit 1 and Moody's Limit 2 may be up to [5] percentage points larger than set out above (as determined by the Trustee in a manner maximizing the Net Outstanding Underlying Asset Balance as of the date of determination) so long as the aggregate of Moody's Limit 1 and Moody's Limit 2 is not more than []%.

"Standard & Poor's Haircut Value" shall have the following meaning set forth in clauses (a) and (b) below for any Underlying Asset that has a Standard & Poor's Rating of below "BBB-", and no meaning for any Underlying Asset that has a Standard & Poor's Rating of "BBB-" or higher. For the purpose of all clauses of the definition of Standard & Poor's Haircut Value, any reference to a Standard & Poor's Rating of an Underlying Asset shall, with respect to a Synthetic Security, mean a reference to a Standard & Poor's Rating of the related Reference Obligation:

(a) if on any date the Aggregate Principal/Notional Balance (determined without regard to this clause (a)) of all Underlying Assets (other than Defaulted Assets and Deferred Interest PIK Bonds) that have a Standard & Poor's Rating of "BB+", "BB" or "BB-" exceeds []% of the Aggregate Principal/Notional Balance of all Underlying Assets and Principal Proceeds (**"S&P Limit 1"**), then the Aggregate Principal/Notional Balance of the Underlying Assets constituting such excess shall be deemed to equal 90% of the actual Aggregate Principal/Notional Balance of such Underlying Assets (determined without regard to this clause (a));

(b) if on any date the Aggregate Principal/Notional Balance (determined without regard to this clause (b)) of all Underlying Assets (other than Defaulted Assets and Deferred Interest PIK Bonds) that have a Standard & Poor's Rating of "B+", "B" or "B-" exceeds [0]% of the Aggregate Principal/Notional Balance of all Underlying Assets and Principal Proceeds (**"S&P Limit 2"**), then the Aggregate Principal/Notional Balance of the Underlying Assets constituting such excess shall be deemed to equal 80% of the actual Aggregate Principal/Notional

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Balance of such Underlying Assets (determined without regard to this clause (b)); and

(c) if such Underlying Assets (other than Defaulted Assets and Deferred Interest PIK Bonds) have a Standard & Poor's Rating of below "B-" exceeds [0]% of the Aggregate Principal/Notional Balance of all Underlying Assets and Principal Proceeds (**"S&P Limit 3"**), then the Aggregate Principal/Notional Balance of such Underlying Assets shall be deemed to equal 70% of the actual Aggregate Principal/Notional Balance of such Underlying Assets (determined without regard to this clause (c));

provided that the reductions contemplated by clauses (a), (b) and (c) immediately above shall be without duplication; *provided further* that each of S&P Limit 1, S&P Limit 2 and S&P Limit 3 may be up to [5] percentage points larger than set out above (as determined by the Trustee in a manner maximizing the Net Outstanding Underlying Asset Balance as of the date of determination) so long as the aggregate of S&P Limit 1, S&P Limit 2, and S&P Limit 3 is not more than []%.

Solely for purposes of the calculation of the Class A/B Overcollateralization Ratio, the Class C Overcollateralization Ratio, the Class D Overcollateralization Ratio and the Class E Diversion Test (and without duplication of any reduction under clauses (a) and (b) of the definition of Net Outstanding Underlying Asset Balance), the Principal/Notional Balance of any Discount Underlying Asset acquired after the Closing Date shall be the original acquisition price of such Discount Underlying Asset.

"Net Scheduled Periodic Offsetting Transaction Payment" means in respect of an Offset Transaction that comprises: the long component of an Offset Transaction and the related Offsetting Transaction, the difference between premium payments due to the Issuer from the Synthetic Security Counterparty and the Scheduled Periodic Offsetting Transaction Payments due to the Offsetting Transaction Counterparty from the Issuer pursuant to the terms of the Offsetting Transaction.

"PIK Bond" means any Underlying Asset that pursuant to the terms of the related Underlying Instruments (a) permits the payment of interest thereon (with respect to such payments due on or after the date on which the security is purchased by the Issuer) to be deferred and capitalized as additional principal thereof or (b) issues identical (except principal and term) securities in place of payments of interest in cash.

"Principal/Notional Balance" means as of any date of determination, with respect to any Asset-Backed Security, the outstanding principal balance of such Asset-Backed Security (excluding any capitalized interest and any negative amortization amounts), and, with respect to each Synthetic Security or a related Reference Obligation, in each case, the Reference Obligation Notional Amount (as defined in the Confirmation) of such Synthetic Security.

"Principal Only Security" means any Asset-Backed Security that does not provide for the payment of rated interest in periodic installments on or prior to the date three Business Days prior to the Stated Maturity of the Notes or provides that all payments of interest will be deferred until the final maturity date thereof.

"Principal Proceeds" means, with respect to any Due Period, the sum (without duplication) of:

(a) all payments of principal on the Underlying Assets and Eligible Investments (excluding any amount representing the accreted portion of a discount from the face amount of an

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Eligible Investment) received in cash by the Issuer during such Due Period including prepayments or mandatory sinking fund payments, or payments in respect of optional redemptions, exchange offers, tender offers, recoveries on Defaulted Securities and Written Down Securities (other than Uninvested Proceeds and payments of principal of Eligible Investments acquired with Interest Proceeds), including the proceeds of a sale of any Equity Security, the proceeds received from any special purpose subsidiary of the Issuer holding an Equity Security, and any amounts received as a result of optional redemptions, exchange offers or tender offers for any Equity Security received in cash by the Issuer during such Due Period but excluding any accreted portion of a discount from the face amount of an Eligible Investment;

(b) all payments of principal of Eligible Investments purchased with amounts from the Principal Collection Account received in cash by the Issuer during such Due Period;

(c) all amendment, waiver, late payment fees, restructuring and other fees and commissions, collected during the related Due Period in respect of Defaulted Securities and Written Down Securities;

(d) all payments of interest received in respect of Defaulted Securities up to an amount equal to the Principal/Notional Balance of such security at the time it became a Defaulted Asset;

(e) any Writedown Reimbursement Amount,

(f) any proceeds to the Issuer resulting from the termination and liquidation of an Interest Rate Swap Agreement, to the extent such proceeds exceed the cost of entering into a replacement Interest Rate Swap Agreement or additional Interest Rate Swap Agreements in accordance with the requirements set forth in the Indenture;

(g) any Principal Shortfall Reimbursement Amount,

(h) upfront payment or any termination payments received with respect to early termination of a Synthetic Security received from the related Synthetic Security Counterparty;

(i) all amounts transferred from the Synthetic Security Collateral Account to the Principal Collection Account as described below under "Security for the Notes—The Accounts—Synthetic Security Collateral Account";

(j) all payments received in cash by the Issuer during such Due Period that represent call, prepayment or redemption premiums;

(k) all payments of interest received to the extent that they represent accrued interest purchased with Principal Proceeds;

(l) all yield maintenance payments received in cash by the Issuer during such Due Period;

(m) any proceeds from the issuance and sale of the Notes and Preference Shares that are not applied to the acquisition of Underlying Assets prior to the Determination Date preceding the First Distribution Date, including amounts on deposit in the Uninvested Proceeds Account, and not deposited into the Expense Account on the Closing Date;

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(n) any proceeds from the liquidation of Underlying Assets received in cash by the Issuer (excluding (1) all accrued interest received in cash by the Issuer and (2) the Disposition Proceeds);

(o) any Disposition Proceeds on deposit in the Disposition Proceeds Account or Principal Collection Account;

(p) any payment of capitalized interest on any Underlying Assets;

(q) any payment of accrued interest paid for with principal proceeds; and

(r) all other payments received in connection with the Underlying Assets and Eligible Investments that are not included in Interest Proceeds; *provided*, that in no event shall Principal Proceeds include the Excepted Property.

"Pure Private Asset-Backed Security" means any security that was not (i) issued pursuant to an effective registration statement under the Securities Act or (ii) a privately placed security that is eligible for resale under Rule 144A or Regulation S under the Securities Act.

"Qualifying Foreign Obligor" means a corporation, partnership, trust or other entity organized or incorporated under the laws of an Eligible Country.

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

"Rating Condition" means, with respect to any action taken or to be taken or any determination made or to be made under the Indenture, a condition that is satisfied when each Rating Agency has confirmed in writing to the Issuer, the Trustee and the Collateral Manager prior to such action or determination that such action or determination will not result in the withdrawal, reduction or other adverse action with respect to any then-current rating (including any shadow, private or confidential rating) of any Class of Notes.

"Scheduled Periodic Offsetting Transaction Payment" means, with respect any Offsetting Transaction, the fixed amounts scheduled to be paid by the Offsetting Transaction Counterparty to the Issuer under such Offsetting Transaction, but excluding any termination payment in respect of such Offsetting Transaction.

"Servicer" means, with respect to any issue of Asset-Backed 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 Asset-Backed Securities are made.

"Special-Majority-in-Interest of Preference Shareholders" means, at any time, Preference Shareholders whose aggregate Voting Percentages at such time exceed 66 2/3% of all Preference Shareholders' Voting Percentages at such time.

"Step Down Bond" means a security which by the terms of the related Underlying Instrument provides for a decrease, in the case of a fixed rate security, in the *per annum* interest rate on such security or, in the case of a floating rate security, in the spread over the applicable index or benchmark rate, solely as a function of the passage of time; *provided* that a Step Down Bond shall not include any such security providing for payment of a constant rate of interest at all times after the date of acquisition by the Issuer. In calculating the Weighted Average Spread and the Weighted Average Coupon by

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reference to the spread (in the case of a floating rate Step Down Bond) or coupon (in the case of a fixed rate Step Down Bond) of a Step Down Bond, the spread or coupon on any date shall be deemed to be the lowest spread or coupon, respectively, scheduled to apply to such Step Down Bond on or after such date.

"Step Up Bond" means a security which by the terms of the related Underlying Instrument provides for an increase, in the case of a fixed rate security, in the *per annum* interest rate on such security or, in the case of a floating rate security, in the spread over the applicable index or benchmark rate, solely as a function of the passage of time; *provided* that a Step Up Bond shall not include any such security providing for payment of a constant rate of interest at all times after the date of acquisition by the Issuer. In calculating the Weighted Average Spread and the Weighted Average Coupon by reference to the spread (in the case of a floating Step Up Bond) or coupon (in the case of a fixed rate Step Up Bond) of a Step Up Bond, the spread or coupon on any date shall be deemed to be the spread or coupon stated to be payable in cash or in effect on such date.

"Underlying Instruments" means the indenture or other agreement pursuant to which an Underlying Asset, 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 Underlying Asset, Eligible Investment or Equity Security or of which holders of such Underlying Asset, Eligible Investment or Equity Security are the beneficiaries.

"Uninvested Proceeds" means, at any time on or prior to the Determination Date prior to the First Distribution Date, the net proceeds received by the Issuer on the Closing Date from the initial issuance of the Notes and Preference Shares and any principal collections on the Underlying Assets received on or prior to the Closing Date, to the extent such proceeds have not theretofore been invested in Underlying Assets or deposited in the Expense Account.

"Voting Percentage" of a Preference Shareholder at any time means the ratio (expressed as a percentage) of such Preference Shareholder's Preference Shares outstanding to the aggregate outstanding Preference Shares of all Preference Shareholders at such time.

"Written Down Security" means, as of any date of determination, any Underlying Asset that is part of an issue as to which the aggregate par amount of the entire class and all other securities secured by the same pool of collateral that rank senior in priority of payment to such class exceeds the aggregate par amount (including reserved interest or other amounts available for overcollateralization) of all collateral securing such issue (excluding defaulted collateral).

The Coverage Tests

The Coverage Tests applicable to a Class of Notes will be used primarily to determine whether and to what extent Interest Proceeds may be used to pay interest on and dividends in respect of Classes of Notes Subordinate to such Class and the Preference Shares and certain other expenses. The **"Coverage Tests"** include the Class A/B Coverage Tests, the Class C Coverage Tests and the Class D Coverage Tests.

In the event that either Class A/B Coverage Test is not satisfied on any Distribution Date, funds that would otherwise be used to pay interest on the Class C Notes, the Class D Notes and the Class E Notes and dividends on the Preference Shares and certain other expenses must instead be used to pay principal of, *first*, the Class A Notes and *second*, the Class B Notes, to the extent necessary to cause each Class A/B Coverage Test to be satisfied.

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In the event that any Class C Coverage Test is not satisfied on any Distribution Date, funds that would otherwise be used to pay interest on the Class D Notes and the Class E Notes and dividends on the Preference Shares and certain other expenses must instead be used to pay principal of, *first*, the Class A Notes, *second*, the Class B Notes and *third*, the Class C Notes, to the extent necessary to cause each Class C Coverage Test to be satisfied.

In the event that any Class D Coverage Test is not satisfied on any Distribution Date, funds that would otherwise be used to pay interest on the Class E Notes and dividends on the Preference Shares and certain other expenses must instead be used to pay principal of, *first*, the Class A Notes, *second*, the Class B Notes, *third*, the Class C Notes and *fourth*, the Class D Notes, to the extent necessary to cause each Class D Coverage Test to be satisfied.

The **"Class A/B Coverage Tests"** will consist of the Class A/B Overcollateralization Test and the Class A/B Interest Coverage Test. The **"Class C Coverage Tests"** will consist of the Class C Overcollateralization Test and the Class C Interest Coverage Test. The **"Class D Coverage Tests"** will consist of the Class D Overcollateralization Test and the Class D Interest Coverage Test.

The Overcollateralization Tests

The Class A/B Overcollateralization Test:

The **"Class A/B Overcollateralization Ratio"** is, as of any Measurement Date, the number (expressed as a percentage) calculated by *dividing* (a) the Net Outstanding Underlying Asset Balance on such Measurement Date *by* (b) the aggregate outstanding principal amount of the Class A Notes *plus* the aggregate outstanding principal amount of the Class B Notes.

The **"Class A/B Overcollateralization Test"** will be satisfied on the Closing Date or a Measurement Date on which any Class A Note or Class B Note remains outstanding if the Class A/B Overcollateralization Ratio on such Measurement Date is equal to or greater than []%.

The Class C Overcollateralization Test:

The **"Class C Overcollateralization Ratio"** is, as of any Measurement Date, the number (expressed as a percentage) calculated by *dividing* (a) the Net Outstanding Underlying Asset Balance on such Measurement Date *by* (b) the aggregate outstanding principal amount of the Class A Notes *plus* the aggregate outstanding principal amount of the Class B Notes *plus* the aggregate outstanding principal amount of the Class C Notes, *plus* any outstanding Class C Deferred Interest.

The **"Class C Overcollateralization Test"** will be satisfied on the Closing Date or a Measurement Date on which any Class A Note, Class B Note or Class C Note remains outstanding if the Class C Overcollateralization Ratio on such Measurement Date is equal to or greater than []%.

The Class D Overcollateralization Test:

The **"Class D Overcollateralization Ratio"** is, as of any Measurement Date, the number (expressed as a percentage) calculated by *dividing* (a) the Net Outstanding Underlying Asset Balance on such Measurement Date *by* (b) the aggregate outstanding principal amount of the Class A Notes *plus* the aggregate outstanding principal amount of the Class B Notes *plus* the aggregate outstanding principal amount of the Class C Notes *plus* the aggregate principal amount of the Class D Notes, *plus* any outstanding Class C Deferred Interest and *plus* any outstanding Class D Deferred Interest.

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The **"Class D Overcollateralization Test"** will be satisfied on the Closing Date or a Measurement Date on which any Class A Note, Class B Note, Class C Note or Class D Note remains outstanding if the Class D Overcollateralization Ratio on such Measurement Date is equal to or greater than []%.

The Class E Diversion Test

The Class E Diversion Test determines whether Interest Proceeds may be applied, in accordance with the Priority of Payments, to make payments that are subordinate to payments on the Class E Notes. If the Class E Diversion Test is not passing on a Measurement Date then on the immediately following Distribution Date, Interest Proceeds, to the extent available in accordance with the Priority of Payments, will be applied to make principal payments on the Class E Notes.

The **"Class E Diversion Ratio"** is, as of any Measurement Date, the number (expressed as a percentage) calculated by *dividing* (a) the Net Outstanding Underlying Asset Balance on such Measurement Date *by* (b) the aggregate outstanding principal amount of the Class A Notes *plus* the aggregate outstanding principal amount of the Class B Notes *plus* the aggregate outstanding principal amount of the Class C Notes *plus* the aggregate principal amount of the Class D Notes *plus* the aggregate principal amount of the Class E Notes, *plus* any outstanding Class C Deferred Interest *plus* any outstanding Class D Deferred Interest and *plus* any outstanding Class E Deferred Interest.

The **"Class E Diversion Test"** will be satisfied on the Closing Date or a Measurement Date on which any Class A Note, Class B Note, Class C Note, Class D Note or Class E Note remains outstanding if the Class E Diversion Ratio on such Measurement Date is equal to or greater than []%.

The Interest Coverage Tests

The Interest Coverage Ratio with respect to the Class A Notes and Class B Notes (the **"Class A/B Interest Coverage Ratio"**), the Class C Notes (the **"Class C Interest Coverage Ratio"**) and the Class D Notes (the **"Class D Interest Coverage Ratio"**) as of any Measurement Date will be calculated by *dividing*:

(a) (i) the sum of (A) the scheduled interest payments due (regardless of whether the due date for any such interest payment has yet occurred) in the Due Period in which such Measurement Date occurs on (1) the Underlying Assets and (2) any Eligible Investments held in the Collection Accounts (whether such Eligible Investments were purchased with Interest Proceeds or Principal Proceeds), (B) any fees actually received by the Issuer during such Due Period that constitute Interest Proceeds and (C) any earnings on Eligible Investments in the Synthetic Security Collateral Account, constituting Interest Proceeds and received after the end of the related Collection Period and immediately prior to the related Payment Date, (D) any amounts scheduled to be paid to the Issuer by an Interest Rate Swap Counterparty under an Interest Rate Swap Agreement on the Distribution Date relating to such Due Period, and (E) any Net Scheduled Periodic Offsetting Transaction Payments payable to the Issuer *minus* (ii) the sum of the Interest Proceeds scheduled to be paid pursuant to clauses (1) through (4) of the Interest Proceeds Priority of Payments on the immediately succeeding Distribution Date; *by*

(b) an amount equal to (i) in the case of the Class A/B Interest Coverage Ratio, the scheduled interest on the Class A Notes and Class B Notes (including Defaulted Interest thereon and accrued interest on such Defaulted Interest, if any) payable on the immediately succeeding Distribution Date, (ii) in the case of the Class C Interest

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Coverage Ratio, the scheduled interest on the Class A Notes, Class B Notes and Class C Notes (including Defaulted Interest and interest thereon, interest on Class C Deferred Interest, if any, but excluding any Class C Deferred Interest) payable on the immediately succeeding Distribution Date or (iii) in the case of the Class D Interest Coverage Ratio, the scheduled interest on the Class A Notes, Class B Notes, Class C Notes and Class D Notes (including Defaulted Interest and interest thereon, interest on Class C Deferred Interest and interest on Class D Deferred Interest, if any, but excluding any Class C Deferred Interest and Class D Deferred Interest) payable on the immediately succeeding Distribution Date (or, if such Measurement Date coincides with a Distribution Date, on such Distribution Date).

For the purpose of determining compliance with any Interest Coverage Test, there will be excluded all scheduled payments of interest on or principal of Defaulted Securities and any payment, including any amount payable to the Issuer by an Interest Rate Swap Counterparty, that will not be made in cash or received when due, as determined by the Collateral Manager in its reasonable business judgment. For purposes of calculating any Interest Coverage Ratio, (i) the expected interest income on floating rate Underlying Assets and Eligible Investments and under any Interest Rate Swap Agreement and the expected interest payable on the Notes will be calculated using the interest rates applicable thereto on the applicable Measurement Date and (ii) accrued original issue discount on Eligible Investments will be deemed to be a scheduled interest payment thereon due on the date such original issue discount is scheduled to be paid.

The **"Class A/B Interest Coverage Test"** will be satisfied on the Closing Date or a Measurement Date on which any Class A Note or Class B Note remains outstanding if the Class A/B Interest Coverage Ratio as of such Measurement Date is equal to or greater than []%; *provided*, that the Class A/B Interest Coverage Test will be deemed to be satisfied on the First Distribution Date.

The **"Class C Interest Coverage Test"** will be satisfied on the Closing Date or a Measurement Date on which any Class A Note, Class B Note or Class C Note remains outstanding if the Class C Interest Coverage Ratio as of such Measurement Date is equal to or greater than []%; *provided*, that the Class C Interest Coverage Test will be deemed to be satisfied on the First Distribution Date.

The **"Class D Interest Coverage Test"** will be satisfied on the Closing Date or a Measurement Date on which any Class A Note, Class B Note, Class C Note or Class D Note remains outstanding if the Class D Interest Coverage Ratio as of such Measurement Date is equal to or greater than []%; *provided*, that the Class D Interest Coverage Test will be deemed to be satisfied on the First Distribution Date.

Mandatory Redemption

In the event that any of the Overcollateralization Tests (not including, for the avoidance of doubt, the Class E Diversion Test) or the Interest Coverage Tests applicable to a Class of Notes is not satisfied on a Determination Date related to any Distribution Date, then Interest Proceeds that would otherwise be used to make payments in respect of interest on any Class of Notes Subordinate to that Class will be used instead to redeem, *first*, each Class (if any) of Notes Senior to such Class of Notes (sequentially in direct order of seniority) and, *second*, such Class of Notes, to the extent necessary to cause each Coverage Test to be satisfied.

In addition, each Class of Notes will be subject to mandatory redemption from Principal Proceeds available after payment of certain other amounts in accordance with the Priority of Payments on each Distribution Date. Any such redemption from Interest Proceeds or Principal Proceeds will be applied to

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each outstanding Class of Notes sequentially in direct order of seniority and will otherwise be effected as described above under "—Priority of Payments."

Optional Redemption

Subject to certain conditions described herein, the Issuer may redeem the Notes (such redemption, an **"Optional Redemption"**), in whole but not in part, at the direction of the holders of at least sixty-six and two-thirds percent (66 2/3%) of the Preference Shareholders at the applicable Redemption Price therefor on any Distribution Date, *provided* that no such Optional Redemption may be effected prior to the [] Distribution Date. Any such Optional Redemption may only be effected on a Distribution Date at the applicable Redemption Price and only from the Disposition Proceeds of all Collateral including the Eligible Investments credited to the Accounts (other than that in the Interest Rate Swap Counterparty Collateral Account and the Synthetic Security Issuer Account) on such Distribution Date. No Optional Redemption may be effected, however, unless (i) all such Disposition Proceeds are used, in whole or in part, to make such an Optional Redemption and (ii) such Disposition Proceeds (including the payment in full to the Issuer of all amounts that can be withdrawn under the Investment Agreement) are at least equal to the Redemption Amount.

Any Optional Redemption is subject to (i) the sale of the Collateral (other than the cash and Eligible Investments referred to in clause (b) of this sentence) arranged by the Collateral Manager, on the proposed Redemption Date, for a sale price in cash at least equal to (a) the Redemption Amount *minus* (b) the balance of the cash and Eligible Investments in the Accounts (other than that in the [Interest Rate Swap Counterparty Collateral Account and the] Synthetic Security Issuer Account) and (ii) the receipt by the Trustee from the Collateral Manager of certification from the Collateral Manager that the sum so received from the purchaser satisfies clause (i). Upon receipt by the Trustee of the certification referred to in the preceding sentence, the Issuer shall take all actions necessary to sell, assign and transfer the Collateral to the prospective purchaser upon payment in immediately available funds of the sum referred to above and the Trustee shall release the Collateral from the lien of the Indenture. The Trustee shall deposit such payment into the Collection Accounts. The Collateral Manager or an Affiliate thereof may be the purchaser of the Collateral in accordance with the procedures set forth in the Management Agreement.

Auction Call Redemption

In accordance with the procedures set forth in **Schedule B** to this Offering Circular (the **"Auction Procedures"**), the Auction Agent shall, at the expense of the Issuer, conduct an auction (an **"Auction"**) of the Underlying Assets if, on or prior to the Distribution Date occurring in [], the Notes have not been redeemed in full and the holders of the Preference Shares have not directed an Optional Redemption of the Notes. The Auction will be conducted not later than seven Business Days prior to (a) the Distribution Date occurring in [] (the **"First Auction Call Date"**) and (b) if the Notes are not redeemed in full on such Distribution Date, each subsequent Distribution Date occurring on or closest to any six-month anniversary of the First Auction Call Date (each, a **"Subsequent Auction Call Date"** and, together with the First Auction Call Date, each an **"Auction Date"**), until the Notes have been redeemed in full. Any of the Collateral Manager (if it is not the Auction Agent), the Initial Purchaser, the Preference Shareholder or the Trustee or any of their respective affiliates may, but will not be required to, bid at the Auction.

The Notes will be redeemable at the applicable Redemption Price and Preference Shares will be redeemable at a price equal to not less than the Minimum Preference Share Redemption Amount. The Notes and Preference Shares will be redeemable from the Disposition Proceeds of all Collateral including Eligible Investments credited to the Accounts (other than that in the [Interest Rate Swap Counterparty Collateral Account and the] Synthetic Security Issuer Account); *provided* that funds under clauses (a) and

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(b) are sufficient to pay in full (i) the Redemption Amount and (ii) the Minimum Preference Share Redemption Amount. The **"Minimum Preference Share Redemption Amount"** shall equal (i) the aggregate liquidation preference of the Preference Shares *minus* (ii) the aggregate amount of all cash distributions on the Preference Shares (whether in respect of dividends or redemption payments) made to the Preference Share Paying Agent for distribution to the Preference Shareholders prior to the relevant Auction Date. If an Auction Call Redemption is not completed on any Auction Date, the Auction Agent shall carry out an Auction in accordance with the Auction Procedures on each subsequent Auction Date until an Auction Call Redemption is completed successfully (the **"Auction Call Redemption Date"**).

Pursuant to the Management Agreement, the Issuer has designated the Collateral Manager (in such capacity, the **"Auction Agent"**) as the Issuer's agent in connection with the sale of the Collateral in connection with any Auction Call Redemption or if the Collateral Manager indicates its desire to bid on the Underlying Assets, the Collateral Manager shall resign as Auction Agent and the Auction Agent for that Auction may be the Initial Purchaser, an Affiliate of the Initial Purchaser or another unaffiliated third party as successor Auction Agent.

The Issuer shall Dispose of and transfer the Underlying Assets to the highest bidder identified by the Auction Agent (or to the highest bidder for each subpool) at the Auction and the Trustee shall release the Collateral from the lien of the Indenture, as long as:

(a) the Auction has been conducted in accordance with the Auction Procedures, as evidenced by a certification of the Auction Agent;

(b) the Auction Agent has received bids for the Underlying Assets (or for each of the related subpools) from at least two prospective purchasers (including the winning bidder) identified on a list of Qualified Bidders provided by the Auction Agent to the Trustee in accordance with the Indenture; provided that each Qualified Bidder for the Synthetic Securities shall have been approved by the relevant Synthetic Security Counterparty; provided, further, that if the Auction Agent has not received bids for one or more Synthetic Securities, the requirements of this clause may be satisfied by determining required payments from or to the Issuer relating to the termination of such Synthetic Securities and including such aggregate amount in the calculation of the Redemption Amount;

(c) the Auction Agent certifies that the highest bids would result in the Disposition of the Underlying Assets (or the related subpools) for a purchase price (paid in cash) that, together with the balance of all Eligible Investments (including the payment in full to the Issuer of all amounts that can be withdrawn under the Investment Agreement) and cash held by the Issuer (other than Eligible Investments and cash in the [Interest Rate Swap Counterparty Collateral Account and the] Synthetic Security Issuer Account), will be at least equal to the sum of (i) the Redemption Amount and (ii) the Minimum Preference Share Redemption Amount; and

(d) the highest bidder (or the highest bidder for each subpool) enters into a written agreement with the Issuer (which the Issuer will execute if the conditions set forth above and in the Indenture are satisfied (such execution to constitute certification by the Issuer that such conditions have been satisfied)) that obligates the highest bidder (or the highest bidder for each subpool) to acquire all of the Underlying Assets (or the relevant subpool) and provides for payment in full (in cash) of the price for any Underlying Asset that is not a Synthetic Security and any amount due to the Issuer as a result of the assignment of

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the Synthetic Securities to the Trustee on or prior to the sixth Business Day following the relevant Auction Date.

Provided that all of the conditions set forth in clauses (a) through (d) of the preceding paragraph have been met, the Issuer will Dispose of and transfer the Underlying Assets (or the related subpool), without representation, warranty or recourse, to such highest bidder identified by the Auction Agent (or the highest bidder for each subpool, as the case may be) in accordance with and upon completion of the Auction Procedures. The Issuer will deposit the purchase price for the Underlying Assets in the Collection Accounts and, on the Distribution Date immediately following the relevant Auction Date, (i) pay the Redemption Amount and (ii) make a payment to the Preference Share Paying Agent (that shall not be less than the Minimum Preference Share Redemption Amount) for distribution to the holder of the Preference Shares in an amount equal to the remainder of such Disposition Proceeds and cash in the Collection Accounts (such redemption, the **"Auction Call Redemption"**). Notwithstanding the foregoing, the holders of 100% of the aggregate outstanding principal amount of a Class of Notes may elect, in connection with any Auction Call Redemption, to receive less than 100% of the Redemption Price that would otherwise be payable to holders of such Class (and the Redemption Price shall be reduced by such amount).

If any of the foregoing conditions is not met with respect to any Auction or if the highest bidder (or the highest bidder for any subpool, as the case may be) fails to pay the purchase price before the sixth Business Day following the relevant Auction Date, (a) the Auction Call Redemption will not occur on the Distribution Date following the relevant Auction Date, (b) the Auction Agent will notify the Trustee and the Trustee will give notice of the withdrawal, (c) subject to clause (d) below, the Trustee on behalf of the Issuer will decline to consummate such sale and the Auction Agent will not solicit any further bids or otherwise negotiate any further Disposition of Underlying Assets in relation to such Auction and (d) unless the Notes are redeemed in full prior to the next succeeding Auction Date, the Auction Agent will conduct another Auction on the next succeeding Auction Date.

The Notes may not be redeemed pursuant to an Auction Call Redemption unless, at least four Business Days before the scheduled Redemption Date, the Collateral Manager shall have furnished to the Trustee and any Interest Rate Swap Counterparty evidence, in form satisfactory to the Trustee, that the Issuer has entered into a binding agreement or agreements with (or guaranteed by) a financial institution or institutions (whose long-term unsecured debt obligations (other than such obligations whose rating is based on the credit of a person other than such institution) have a credit rating from each Rating Agency at least equal to the highest rating of the Notes then outstanding or whose short-term unsecured debt obligations have a credit rating of at least "A-1" by Standard & Poor's and (if rated by Fitch) at least "F1" by Fitch and provided that in case such financial institution is the Collateral Manager no credit rating is required) to sell, not later than the Business Day immediately preceding the scheduled Redemption Date, in immediately available funds, all or part of the Underlying Assets at a sale price (including in such price an amount equal to any accrued interest) which, together with the balance of the cash and Eligible Investments in the Accounts (other than that in the [Interest Rate Swap Counterparty Collateral Account and the] Synthetic Security Issuer Account), is at least equal to (i) the Redemption Amount and (ii) the Minimum Preference Share Redemption Amount.

Clean-Up Call Redemption

At the direction of the Collateral Manager, the Notes will be subject to redemption by the Issuer, in whole but not in part (a **"Clean-Up Call Redemption"**), at the applicable Redemption Price on any Distribution Date which occurs on or after the Distribution Date on which the aggregate outstanding principal amount of the Notes is less than or equal to []% of the original aggregate outstanding principal amount of the Notes as of the Closing Date. Any such redemption may only be effected on a Distribution

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Date and only from the Disposition Proceeds of all Collateral including the Eligible Investments credited to the Accounts (other than that in the Synthetic Security Issuer Account) and all Offsetting Transactions.

Any Clean-Up Call Redemption is subject to (a) the purchase of the Collateral (other than the cash and Eligible Investments referred to in clause (ii) below) by the Collateral Manager or any of its Affiliates from the Issuer, on the scheduled Redemption Date, for a purchase price in cash at least equal to (i) the Redemption Amount *minus* (ii) the balance of the cash and Eligible Investments in the Accounts (other than that in the Synthetic Security Issuer Account, but including the payment in full to the Issuer of all amounts that can be withdrawn under the Investment Agreement) and (b) the receipt by the Trustee, prior to such purchase, of the Collateral Manager's certification that the sum so received satisfies clause (a). Upon receipt by the Trustee of the Collateral Manager's certification, the Trustee and the Issuer shall take all actions necessary to sell, assign and transfer the Collateral to the Collateral Manager or any of its Affiliates upon payment in immediately available funds of the purchase price. The Trustee shall deposit such payment into the Collection Accounts and apply the funds therein in accordance with the Priority of Payments on such Redemption Date.

Tax Redemption

The Notes will be redeemable (such redemption, a **"Tax Redemption"**), in whole but not in part, by the Issuer at the direction of a Majority-in-Interest of Preference Shareholders. Any such redemption may only be effected on a Distribution Date at the applicable Redemption Price and only from the Disposition Proceeds of all Collateral including the Eligible Investments credited to the Accounts (other than that in the [Interest Rate Swap Counterparty Collateral Account and the] Synthetic Security Issuer Account). No Tax Redemption may be effected, however, unless (i) all such Disposition Proceeds are used, in whole or in part, to make such Tax Redemption, (ii) such Disposition Proceeds (including the payment in full to the Issuer of all amounts that can be withdrawn under the Investment Agreement) are sufficient to pay in full the Redemption Amount, (iii) a Tax Event shall have occurred and (iv) the Tax Materiality Condition is satisfied.

A **"Tax Event"** will occur, whether or not as a result of any change in law or interpretation, if (a) any obligor is required to deduct or withhold from any payment under any Underlying Asset to the Issuer for or on account of any tax for whatever reason, whether or not as a result of any change in law or interpretation, and such obligor 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 occurred, (b) the Issuer or an Interest Rate Swap Counterparty is required to deduct or withhold from any payment under any Interest Rate Swap Agreement for or on account of any tax and the Issuer is obligated to pay gross-up amounts to the relevant Interest Rate Swap Counterparty, or the relevant Interest Rate Swap Counterparty is not obligated to pay the Issuer such additional amount as is necessary to ensure that the net amount actually received by the Issuer (free and clear of taxes, whether assessed against such obligor or the Issuer) will equal the full amount that the Issuer would have received had no such deduction or withholding occurred or (c) any net income, profits or similar tax is imposed on the Issuer. The **"Tax Materiality Condition"** will be satisfied during any 12-month period if any combination of Tax Events results, in aggregate, in a payment, charge or tax burden to the Issuer in excess of U.S.$1,000,000.

Any Tax Redemption is subject to (a) the Disposition of the Collateral (other than the cash and Eligible Investments referred to in clause (ii) below) arranged by the Collateral Manager, on the scheduled Redemption Date, for a sale price in cash at least equal to (i) the Redemption Amount *minus* (ii) the balance of Eligible Investments and cash in the Accounts (other than that in the [Interest Rate Swap Counterparty Collateral Account and the] Synthetic Security Issuer Account), and (b) the receipt by

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the Trustee of certification from the Collateral Manager that the sum so received from the purchaser satisfies clause (a). Upon receipt by the Trustee of the Collateral Manager's certification, the Issuer shall take all actions necessary to sell, assign and transfer the Collateral to the prospective purchaser upon payment in immediately available funds of the sum referred to above and the Trustee shall release the Collateral from the lien of the Indenture. The Collateral Manager or an Affiliate of the Collateral Manager may purchase the Collateral. The Trustee shall deposit such payment into the Collection Accounts.

Redemption Price and Redemption Amount

The amount payable in connection with an Auction Call Redemption, Optional Redemption, Clean-Up Call Redemption or Tax Redemption of any Note will be an amount equal to (a) the aggregate outstanding principal amount of such Note being redeemed, *plus* (b) the accrued and unpaid interest thereon (including Defaulted Interest and Deferred Interest and interest thereon, if any) (the **"Redemption Price"**).

"Redemption Amount" means, with respect to an Auction Call Redemption, Optional Redemption, Clean-Up Call Redemption or Tax Redemption, an amount equal to the sum of (i) the Redemption Price in respect of all Notes and (ii) all unpaid administrative expenses (including indemnities) and fees then due and payable of the Issuers, including any termination payments payable by the Issuer under any Interest Rate Swap Agreement and the Synthetic Securities, the Management Fee due to the Collateral Manager and, with respect to an Auction Call Redemption, fees and expenses of the Auction Agent.

Redemption Procedures

Notice of any Auction Call Redemption, Optional Redemption, Clean-Up Call Redemption or Tax Redemption will be given by first-class mail, postage prepaid, mailed not less than ten days and not more than 30 days prior to the date scheduled for redemption (with respect to such Auction Call Redemption, Optional Redemption, Clean-Up Call Redemption or Tax Redemption, the **"Redemption Date"**), to DTC, to the registered holders of the Regulation S Global Notes by delivery of the relevant notice to Euroclear and Clearstream for communication by them to entitled accountholders and to each holder of Preference Shares at such holder's address in the Note Register or, in the case of the Preference Shares, the register of Preference Shares maintained under the Preference Share Paying Agency Agreement (the **"Share Register"**), any Interest Rate Swap Counterparty, each Synthetic Security Counterparty, the Initial Investment Agreement Provider and to each Rating Agency. The Trustee will also give notice thereof to the Company Announcements Office of the Irish Stock Exchange. Notes must be surrendered at the offices of a Paying Agent under the Indenture in order to receive the applicable Redemption Price, unless the holder provides (a) an undertaking to surrender such Note thereafter and (b) in the case of a holder that is not a Qualified Institutional Buyer, such security or indemnity as may be required by the Issuers or the Trustee.

Any notice of redemption may be withdrawn by the Issuer up to the fifth Business Day prior to the scheduled Redemption Date by written notice to the Trustee, any Interest Rate Swap Counterparty, each Synthetic Security Counterparty, the Initial Investment Agreement Provider and the Collateral Manager; *provided* that such notice is effective only if the Disposition Proceeds and the Collateral Manager certificates (if any) required to be delivered to the Trustee with respect to an Auction Call Redemption, Optional Redemption, Tax Redemption or Clean-Up Call Redemption have not been delivered to the Trustee by such date in form satisfactory to the Trustee. Notice of any such withdrawal shall be given by the Trustee to DTC, to the registered holders of the Regulation S Global Notes by delivery of the relevant notice to Euroclear and Clearstream for communication by them to entitled accountholders and to each holder of Preference Shares at such holder's address in the Share Register.

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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.

Form, Denomination, Registration and Transfer

General

(1) The Notes which will be offered by the Initial Purchaser to persons that are not U.S. Persons and outside the United States will initially be represented by one or more Temporary Regulation S Global Notes in definitive, fully registered form, without interest coupons attached, deposited with the Trustee as custodian for, and registered in the name of, DTC or its nominee, initially for the accounts of Euroclear and Clearstream. On the 40th day after which all of the Notes of any Class have been sold to investors other than the Initial Purchaser or its Affiliates, and subject to the receipt by the Trustee of a certificate in the form provided by the Indenture from the person holding such interest, a beneficial interest in a Class of Temporary Regulation S Global Notes may be exchanged for an interest in a Permanent Regulation S Global Note of such Class in fully registered form without coupons in an amount equal to the aggregate principal amount of such interest in the Temporary Regulation S Global Note. During the Distribution Compliance Period, beneficial interests in a Regulation S Global Note may be held only through Euroclear and Clearstream. By acquisition of a beneficial interest in a Regulation S Global Note, any purchaser thereof will be deemed to represent that it is not a U.S. Person and that, if in the future it decides to transfer such beneficial interest, it will transfer such interest only (x) to a non-U.S. Person in an offshore transaction in accordance with Regulation S, or (y) to a person who takes delivery in the form of a Restricted Note. Beneficial interests in each Regulation S Note will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants, including Euroclear and Clearstream.

(2) The Notes which will be offered by the Initial Purchaser in reliance upon an exemption from the registration requirements of the Securities Act (a) under Section 4(2) of the Securities Act or (b) pursuant to Rule 144A will be represented by one or more Restricted Global Notes in fully registered form, without interest coupons attached, deposited with the Trustee as custodian for, and registered in the name of, DTC or its nominee. By acquisition of a beneficial interest in a Restricted Note, any purchaser thereof will be deemed to represent that it is a U.S. Person and that, if in the future it decides to transfer such beneficial interest, it will transfer such interest only (a) to a Qualified Institutional Buyer that is a Qualified Purchaser, or (b) to a non-U.S. Person in an offshore transaction in accordance with Regulation S. Restricted Notes may not be transferred to non-U.S. Persons except in the form of a Regulation S Note. Interests in Restricted Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants.

(3) The Notes are subject to the restrictions on transfer set forth herein under "Transfer Restrictions."

(4) Owners of beneficial interests in Regulation S Global Notes and Restricted Global Notes will be entitled or required, as the case may be, under certain limited circumstances described below, to receive physical delivery of certificated Notes (either a **"Restricted Definitive Note"** or a **"Regulation S Definitive Note"** and collectively, **"Definitive Notes"**) in fully registered, definitive form. No owner of an interest in a Regulation S Global Note will be entitled to receive a Definitive Note (a) until after the expiration of the Distribution Compliance Period and (b) unless (i) for a person other than a distributor (as defined in Regulation S), such person provides certification that the Definitive Note will be owned by a person that is not a U.S. Person (as defined in Regulation S) or (ii) for a person that is a U.S. Person,

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such person provides certification that any interest in such Definitive Note was purchased in a transaction that did not require registration under the Securities Act and that such person is a Qualified Purchaser. The Notes are not issuable in bearer form.

(5) Pursuant to the Indenture, the Trustee has been appointed and will serve as the registrar of the Notes (the **"Note Registrar"**) and will provide for the registration of the Notes and the registration of transfers of Notes in the register maintained by it (the **"Note Register"**). The Trustee has been appointed as a transfer agent with respect to the Notes (in such capacity, a **"Transfer Agent"**).

(6) The Notes (or interests therein) will be issuable in minimum denominations of U.S.$500,000 and in integral multiples of U.S.$1,000 in excess thereof.

Global Notes

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

(2) Investors may hold their interests in a Regulation S Global Note directly through Euroclear or Clearstream, if they are participants in such systems, or indirectly through organizations which are participants in such systems. After the Distribution Compliance Period (but not earlier), investors may also hold such interests other than through Euroclear or Clearstream. Euroclear and Clearstream will hold interests in Regulation S Global Notes on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositaries, which in turn will hold such interests in such Regulation S Notes in customers' securities accounts in the depositaries' names on the books of DTC. Investors may hold their interests in a Restricted Global Note directly through DTC, if they are participants in such system, or indirectly through organizations which are participants in such system.

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

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

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practices, as is now the case with securities held for the accounts of customers registered in the name of nominees for such customers. Such payments will be the responsibility of such Participants.

Definitive Notes

Interests in a Regulation S Note or a Restricted Note represented by a Global Note will be exchangeable or transferable, as the case may be, for a Regulation S Note or a Restricted Note, respectively, that is a Definitive Note if (a) DTC notifies the Issuer that it is unwilling or unable to continue as depositary for such Note, (b) DTC ceases to be a "Clearing Agency" registered under the Exchange Act, and a successor depositary is not appointed by the Issuer within 90 days, (c) the transferee of an interest in such Global Note is required by law to take physical delivery of securities in definitive form, (d) any Regulation S Global Note becomes immediately due and payable following an Event of Default under the Indenture, (e) DTC, Euroclear or Clearstream is closed for business for a continuous period of 14 days (other than by reason of holiday), (f) DTC, Euroclear or Clearstream announces an intention permanently to cease business and no alternative clearance system satisfactory to the Issuer is available, (g) as a result of any amendment to, or change in, the laws or regulations of the Cayman Islands or of any authority therein or thereof having power to tax or in the interpretation or administration of such laws or regulations which becomes effective on or after the Closing Date, the Issuer or any Paying Agent is or will be required to make any deduction or withholding from any payment in respect of the Notes which would not be required were the Notes in definitive form or (h) the Issuer so elects by notice to the holders of the Notes, and DTC, Euroclear and/or Clearstream, as the case may be, do not object. Upon the occurrence of any of the events described in the preceding sentence, the Issuer will cause Definitive Notes bearing an appropriate legend (a "**Legend**") regarding restrictions on transfer to be delivered. Upon the transfer, exchange or replacement of Definitive Notes bearing a Legend, or upon specific request for removal of a Legend on a Note, the Issuers shall deliver through the Trustee or any Paying Agent to the holder and the transferee, as applicable, one or more Definitive Notes in certificated form corresponding to the principal amount of Definitive Notes surrendered for transfer, exchange or replacement that bear such Legend, or will refuse to remove such Legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence, which may include an opinion of U.S. counsel, as may reasonably be required by the Issuer that neither the Legend nor the restrictions on transfer set forth therein is required to ensure compliance with the provisions of the Securities Act or the Investment Company Act. Definitive Notes will be exchangeable or transferable for interests in other Definitive Notes as described below.

Transfer and Exchange of Global Notes

(1) Transfer of a Regulation S Note (or any interest therein) to a transferee who takes delivery of such Note (or interest therein) in the form of a Restricted Note (or any interest therein) may be made before or after the end of the Distribution Compliance Period, in accordance with the Applicable Procedures (in the case of Global Notes) and upon receipt by the Trustee, the Issuers and the Note Registrar of a transfer certificate in the form provided in the Indenture to the effect that, among other things, such transfer is being made (a) to a person whom the transferor reasonably believes is a Qualified Institutional Buyer, acquiring such Notes (or any interest therein) for its own account and to whom notice is given that the resale, pledge or other transfer is being made in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A and a Qualified Purchaser, and (b) in accordance with any applicable securities laws of any state of the United States and any other relevant jurisdiction and from the transferee in the form provided for in the Indenture. An exchange or transfer of a Note represented by a Definitive Note to a transferee who takes delivery of such Note in the form of a Restricted Global Note may be made after the receipt by the Note Registrar or Transfer Agent, as the

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case may be, of the Definitive Notes to be so exchanged or transferred and upon receipt by the Trustee and the Issuers of a transfer certificate in the form provided in the Indenture.

An owner of a beneficial interest in a Regulation S Global Note may transfer such interest in the form of a beneficial interest in such Regulation S Global Note without the provision of written certification, *provided* that such transfer is not made to a U.S. Person or for the account or benefit of a U.S. Person and is effected, prior to the expiration of the Distribution Compliance Period, through Euroclear or Clearstream or, after the expiration of the Distribution Compliance Period, through a clearing system other than Euroclear or Clearstream, in an offshore transaction as required by Regulation S.

(2) Transfer of a Restricted Note (or any interest therein) to a transferee who takes delivery of such Note (or interest therein) in the form of a Regulation S Note will be made only in accordance with the Applicable Procedures (in the case of Global Notes) and upon receipt by the Trustee, the Issuers and the Note Registrar of a transfer certificate in the form provided in the Indenture to the effect that such transfer is being made to a non-U.S. Person in an offshore transaction (within the meaning of Regulation S) in accordance with Rule 904 of Regulation S. An exchange or transfer of a Note represented by a Definitive Note to a transferee who takes delivery of such Note in the form of a Regulation S Global Note may be made after the receipt by the Note Registrar or Transfer Agent, as the case may be, of the Definitive Notes to be so exchanged or transferred and upon receipt by the Trustee and the Issuers of a transfer certificate in the form provided in the Indenture.

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

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

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

(5) For so long as any of the Notes are listed on the Irish Stock Exchange and the rules of such exchange shall so require, the Issuers will have a paying agent for such Notes in Ireland and payments on and transfers or exchanges of interests in such Notes may be effected through the Irish Paying Agent. If the Irish Paying Agent is replaced at any time during such period, notice of the appointment of any replacement will be given to the Company Announcements Office of the Irish Stock Exchange.

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

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

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

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

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

(11) Because of time zone differences, cash received in Euroclear or Clearstream as a result of sales of interests in a Regulation S Global Note by or through a Euroclear or Clearstream 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 cash account only as of the business day following settlement in DTC.

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

(13) DTC has advised the Issuers as follows: DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic book-entry changes in accounts of its Participants, thereby eliminating the need for physical movement of

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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").

(14) Although DTC, Euroclear and Clearstream have agreed to the foregoing procedures in order to facilitate transfers of interests in Global Notes among participants of DTC, Euroclear and Clearstream, 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 or their respective Participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

(15) The Issuer may impose additional transfer restrictions to comply with the USA PATRIOT Act, or any similar laws or regulations to the extent they are applicable to the Issuer, and each holder of Securities will be required to comply with such transfer restrictions.

Preference Shares

The Preference Shares will be issued in fully registered, definitive form, registered in the name of the legal owner thereof (or a nominee acting on behalf of the disclosed legal owner thereof). No Preference Share may be transferred except in accordance with the terms set forth in the Issuer Charter and the Preference Share Paying Agency Agreement.

No Gross-Up

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

The Indenture

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

Events of Default

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

(a) a default on any Distribution Date in the payment of any interest accrued during the Interest Period immediately preceding such Distribution Date (i) on any Class A Note or Class B Note, (ii) if there are no Class A Notes or Class B Notes outstanding, on any Class C Note, (iii) if there are no Class A Notes, Class B Notes or Class C Notes outstanding, on any Class D Note or (iv) if there are no Class A Notes, Class B Notes, Class C Notes, or Class D Notes outstanding, on any Class E 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 failure to make such payment resulting, as certified in writing by the Trustee, solely from an administrative error or omission by the Trustee, the Administrator, any Paying Agent or the Note Registrar, seven days);

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(b) a default in the payment of principal of any Note at its Stated Maturity or Redemption Date or, in the case of a failure to make such payment resulting solely from an administrative error or omission by the Administrator, the Trustee, any Paying Agent or the Note Registrar which continues for a period of seven days;

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

(d) either of the Issuers becomes an investment company required to be registered under the Investment Company Act;

(e) a default in the performance, or breach, of any other covenant or other agreement (other than any covenant to meet the Collateral Quality Tests or the Coverage Tests) 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 or breach 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 or to the Issuer, the Collateral Manager and the Trustee by the holders of at least 50% in aggregate outstanding principal amount of Notes of the Controlling Class;

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

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

If either of the 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, any Interest Rate Swap Counterparty, the Synthetic Security Counterparty, the Initial Investment Agreement Provider, the other of the Issuers and each Rating Agency of such Event of Default in writing.

If an Event of Default occurs and is continuing (other than an Event of Default described in clause (f) under "Events of Default" above), the Trustee (at the direction of the holders of a majority in aggregate outstanding principal amount of the Controlling Class) by notice to the Issuers, or holders of a majority in aggregate outstanding principal amount of the Controlling Class by notice to the Issuers and the Trustee, may declare the principal of and accrued and unpaid interest on all of the Notes to be immediately due and payable. If an Event of Default described in clause (f) above under "Events of Default" occurs, such an acceleration will occur automatically and without any further action. Notwithstanding the foregoing, if

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the sole Event of Default is an Event of Default described in clause (a) or clause (b) above under "Events of Default" with respect to a default in the payment of any principal of or interest on the Notes of a Class other than the Controlling Class, neither the Trustee nor the holders of such non-Controlling Class will have the right to declare such principal and other amounts to be immediately due and payable. Any declaration of acceleration may under certain circumstances be rescinded by the holders of at least a majority in aggregate outstanding principal amount of Notes of the Controlling Class. The **"Controlling Class"** will be the Class A Notes or, if there are no Class A Notes outstanding, the Class B Notes or, if there are no Class A Notes or Class B Notes outstanding, the Class C Notes or, if there are no Class A Notes, Class B Notes or Class C Notes outstanding, the Class D Notes or, if there are no Class A Notes, Class B Notes, Class C Notes or Class D Notes outstanding, the Class E Notes.

If an Event of Default occurs and is continuing when any Note is outstanding, the Trustee will retain the Collateral intact and collect all payments in respect of the Collateral and continue making payments in the manner described under "—Priority of Payments" unless:

(a) the Trustee, or an independent investment banking firm of national reputation selected by the Trustee at the expense of the Issuer, determines that the anticipated net proceeds of a sale or liquidation of such Collateral would be sufficient to discharge in full the amounts then due and unpaid on the Notes and certain administrative expenses (including any amounts due to the Collateral Manager and any Interest Rate Swap Counterparty) in accordance with the Priority of Payments and the holders of a majority in aggregate outstanding principal amount of the Controlling Class agree with such determination; or

(b) the holders of at least 66 2/3% in aggregate outstanding principal amount of each Class of the Notes voting as a separate Class (and (i) any Interest Rate Swap Counterparty, unless no early termination payment would be owing by the Issuer to the relevant Interest Rate Swap Counterparty or it will be paid in full all amounts owing to it by the Issuer and (ii) the Synthetic Security Counterparty, unless no payment would be owing by the Issuer to the Synthetic Security Counterparty or it will be paid in full all amounts owing to it by the Issuer) direct, subject to the provisions of the Indenture, the sale of the Collateral.

If an Event of Default occurs and is continuing and either condition (a) or condition (b) above is satisfied, the Trustee will liquidate the Collateral, including the termination or novation of the Synthetic Securities, and terminate any Interest Rate Swap Agreement and, on the second Business Day (the **"Accelerated Maturity Date"**) following the Business Day on which the Trustee notifies the Issuer, the Collateral Manager and each Rating Agency that such liquidation and such termination is completed, apply the proceeds thereof, net of reasonable costs of collection and enforcement, in accordance with the Priority of Payments described above under "Priority of Payments—Interest Proceeds" and "Priority of Payments—Principal Proceeds." The Accelerated Maturity Date will be treated as a Distribution Date.

The holders of a majority in aggregate outstanding principal amount of Notes of the Controlling Class will have the right to direct the Trustee in the conduct of any proceedings for any remedy available to the Trustee, *provided* that (a) such direction will not conflict with any rule of law or the Indenture; (b) the Trustee may take any other action not inconsistent with such direction (and the Trustee need not take any action whether pursuant to direction from the Controlling Class or otherwise that it determines might involve it in liability unless it has received indemnity against such liability as set forth in (c)); (c) the Trustee has been provided with indemnity satisfactory to it; and (d) 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

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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.

The holders of a majority in aggregate outstanding principal amount of Notes of the Controlling Class, acting together with each Synthetic Security Counterparty, may, prior to the time a judgment or decree for the payment of money due has been obtained by the Trustee, waive any past default on behalf of the holders of all the Notes and its consequences, except a default in the payment of the principal of any Note or in the payment of interest (including any Deferred Interest, Defaulted Interest or interest thereon) on the Class A Notes or, after the Class A Notes have been paid in full, the Class B Notes or, after the Class B Notes have been paid in full, the Class C Notes, after the Class C Notes have been paid in full, the Class D Notes, or after the Class D Notes are paid in full, the Class E Notes, or in respect of a provision of the Indenture that cannot be modified or amended without the waiver or consent of the holder of each outstanding Note affected thereby or arising as a result of an Event of Default described in clause (d) above under "Events of Default." Notwithstanding any such grant of a waiver, an Interest Rate Swap Counterparty may rescind such waiver by notice to the Trustee, the Collateral Manager, each Synthetic Security Counterparty and the holders of the Controlling Class of Notes (given within five Business Days after receipt of notice of such waiver) if the relevant Interest Rate Swap Counterparty delivers a certification to the effect that such waiver will have a material and adverse effect on such Interest Rate Swap Counterparty.

No holder of a Note will have the right to institute any proceeding with respect to the Indenture unless (a) such holder previously has given to the Trustee written notice of an Event of Default, (b) except in certain cases of a default in the payment of principal or interest, the holders of at least 50% in aggregate outstanding principal amount of the Notes of the Controlling Class have made a written request upon the Trustee to institute such proceedings in its own name as Trustee and such holders have offered the Trustee reasonable indemnity, (c) the Trustee has for 30 days failed to institute any such proceeding and (d) no direction inconsistent with such written request has been given to the Trustee during such 30-day period by the holders of a majority in aggregate outstanding principal amount of the Notes of the Controlling Class.

In determining whether the holders of the requisite percentage of Notes or requisite percentage in interest of Preference Shareholders have given any direction, notice or consent, (a) Notes owned by the Issuer, the Co-Issuer or any affiliate thereof shall be disregarded and deemed not to be outstanding and (b) in relation to any assignment or termination of the Management Agreement (including the exercise of any right to remove the Collateral Manager or terminate the Management Agreement) or any amendment or other modification of the Management Agreement or the Indenture increasing the rights or decreasing the obligations of the Collateral Manager, Collateral Manager Securities shall be disregarded and deemed not to be outstanding. Collateral Manager Securities shall be disregarded and deemed not to be outstanding for purposes of determining whether holders of the requisite percentage in interest of Preference Shares have approved certain acquisitions of Underlying Assets from the Collateral Manager or its Affiliates. The Collateral Manager and its Affiliates will be entitled to vote Notes and Preference Shares held by them with respect to all matters other than those described in the foregoing clause (b) (including the selection of or consent to a successor collateral manager that is not an Affiliate of the

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existing Collateral Manager). The term **"Collateral Manager"** for purposes of this paragraph includes any successor or successors to HBK Investments L.P. and any of HBK Investments L.P.'s affiliated subadvisors.

Notices

Notices to the Noteholders will be given by first-class mail, postage prepaid, to the registered Noteholders at their addresses appearing in the Note Register. In addition, for so long as any of the Notes are listed on the Irish Stock Exchange and the rules of such exchange so require, notices will also be given to the Company Announcements Office of the Irish Stock Exchange.

Modification of the Indenture

With the consent of (a) the holders of not less than a majority of each Class materially and adversely affected thereby and all of the Preference Shareholders if materially and adversely affected thereby, (b) the consent of any Interest Rate Swap Counterparty adversely affected thereby, (c) the consent of the Synthetic Security Counterparty adversely affected thereby, and (c) the consent of the Initial Investment Agreement Provider adversely affected thereby, the Trustee and Issuers may enter into one or more indentures to add any provisions to, or change in any manner or eliminate any of the provisions of, the Indenture or modify in any manner the rights of the Noteholders of such Class, the Preference Shareholders, any Interest Rate Swap Counterparty, Synthetic Security Counterparty or the Initial Investment Agreement Provider, as the case may be, under the Indenture. Unless notified by holders of a majority in aggregate outstanding principal amount of any Class of Notes, a Majority-in-Interest of Preference Shareholders, any Interest Rate Swap Counterparty, the Synthetic Security Counterparty or the Initial Investment Agreement Provider that such Class of Notes or the Preference Shares, as the case may be, will be materially and adversely affected, or any Interest Rate Swap Counterparty will be adversely affected, or the Synthetic Security Counterparty will be adversely affected, or the Initial Investment Agreement Provider will be 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 and adversely affected, or any Interest Rate Swap Counterparty would be adversely affected, or the Synthetic Security Counterparty would be adversely affected, or the Initial Investment Agreement Provider would be adversely affected, by such change (after giving 15 Business Days' notice of such change to the holders of such Class of Notes, the Preference Shareholders, any Interest Rate Swap Counterparty and the Initial Investment Agreement Provider). Such determination shall be conclusive and binding on all present and future Noteholders, the Preference Shareholders, any Interest Rate Swap Counterparty, the Synthetic Security Counterparty and the Initial Investment Agreement Provider.

Notwithstanding the foregoing, the Trustee may not enter into any supplemental indenture without the consent of each holder of each outstanding Note of each Class affected thereby and each Preference Shareholder if the Preference Shares are affected by the supplemental indenture if such supplemental indenture:

(a) changes the Stated Maturity of any Note or the scheduled redemption date of the Preference Shares or the due date of any installment of interest on any Note or distribution of Excess Interest in respect of a Preference Share, reduces the principal amount of any Note or the rate of interest thereon, or the redemption price with respect to any Note or Preference Share, changes the earliest date on which the Issuer may redeem any Note or Preference Share or the amount of Excess Interest or Excess Principal Proceeds payable in respect of a Preference Share, changes the provisions of the Indenture relating to the application of proceeds of any Collateral to the payment of

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principal of or interest on the Notes or the payment of Excess Interest and Excess Principal Proceeds in respect of the Preference Shares, changes any place where, or the coin or currency in which, any Note or any Preference Share, or the principal thereof or interest thereon or any Excess Interest or Excess Principal Proceeds in respect thereof, respectively, is payable, or impairs the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof or the scheduled redemption date of the Preference Shares (or, in the case of redemption, on or after the applicable redemption date);

(b) reduces the percentage in aggregate outstanding principal amount of holders of Notes of each Class or the percentage of Preference Shares whose consent is required for the authorization of any supplemental indenture or for any waiver of compliance with applicable provisions of the Indenture or certain defaults thereunder or their consequences;

(c) impairs or adversely affects the Collateral pledged under the Indenture except as otherwise permitted thereby;

(d) 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 or deprives the holder of any Note of the security afforded by the lien created by the Indenture;

(e) reduces the percentage of the aggregate outstanding principal amount of holders of Notes of each Class 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;

(f) modifies any of the provisions of the Indenture with respect to supplemental indentures requiring the consent of Noteholders except to increase the percentage of outstanding Notes (or percentage of 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 affected thereby;

(g) modifies the definition of the term **"Outstanding,"** the Priority of Payments or the subordination provisions of the Indenture;

(h) changes the permitted minimum denominations of any Class of Notes or the minimum number of Preference Shares; or

(i) modifies any of the provisions of the Indenture in such a manner as to affect the calculation of the amount of any payment of interest on or principal of any Note or the calculation of the amount of Excess Interest or Excess Principal Proceeds with respect to the Preference Shares on any Distribution Date or the right of the Noteholders or the Preference Shareholders to the benefit of any provisions for the redemption of such Notes or Preference Shares contained in the Indenture;

provided that no such supplemental indenture shall modify the rights of the Preference Shareholders without the written consent of each Preference Shareholder. At any time that any Class of Notes is rated by any Rating Agency, the Trustee shall not enter into any such supplemental indenture if, as a result of

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such supplemental indenture, the Rating Condition would not be satisfied with respect to such supplemental indenture, unless each holder of Notes of each Class whose rating will be reduced or withdrawn has consented to such supplemental indenture.

The Issuers and the Trustee may also enter into supplemental indentures without obtaining the consent of the holders of any Notes or Preference Shares, any Interest Rate Swap Counterparty, the Synthetic Security Counterparty or the Initial Investment Agreement Provider in order to, among other things:

(a) evidence the succession of any person to the Issuer or the Co-Issuer and the assumption by such successor of the covenants in the Indenture and the Notes or to change the name of the Issuer or the Co-Issuer;

(b) add to the covenants of the Issuers or the Trustee for the benefit of the holders of all of the Notes and Preference Shares or to surrender any right or power conferred upon the Issuers;

(c) convey, transfer, assign, mortgage or pledge any property to or with the Trustee;

(d) evidence and provide for the acceptance of appointment under the Indenture by a successor trustee, collateral manager, listing agent, calculation agent, custodian, securities intermediary, note registrar, paying agent and/or collateral administrator and the compensation thereof and to add to or change any of the provisions of the Indenture as shall be necessary to facilitate the administration of the trusts under the Indenture by more than one Trustee;

(e) 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;

(f) make administrative and other non-material changes as the Issuer deems appropriate;

(g) obtain ratings on one or more Classes of Notes from any rating agency;

(h) with the prior written consent of the Collateral Manager, 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 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;

(i) with the prior written consent of the Collateral Manager, correct any inconsistency, defect or ambiguity in the Indenture;

(j) with the prior written consent of the Collateral Manager, modify the restrictions on and procedures for resales and other transfers of the Notes to reflect any changes in applicable law or regulation (or the interpretation thereof) or in accordance with the USA PATRIOT Act, or other similar applicable laws or regulations to enable the Issuers to rely upon any less restrictive exemption from registration under the Securities Act or the

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Investment Company Act or to remove restrictions on resale and transfer to the extent not required thereunder;

(k) avoid the imposition of tax on the net income of the Issuer (or to reduce the amount of such tax payable by the Issuer) or of withholding tax on any payment to the Issuer, or prevent the Noteholders, the Preference Shareholders or the Trustee from being subject to withholding or other taxes, fees or assessments, or 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 or franchise tax on a net income tax basis, or avoid the Issuer being required to register as an investment company under the Investment Company Act (or to reflect any change permitted by the Indenture to avoid the occurrence of a Tax Event or the existence of a Tax Materiality Condition); provided that such action will not cause the Noteholders to be adversely affected to any material extent by any change to the timing, character or source of the income from the Note;

(l) with the prior written consent of the Collateral Manager, to avoid the consolidation of the Issuer with the Collateral Manager on the financial statements of the Collateral Manager;

(m) accommodate the issuance of any Class of Notes as definitive notes;

(n) if 100% of the Preference Shareholders request in writing to the Issuer and the Trustee, accommodate the issuance of additional Preference Shares with terms identical to those of the existing Preference Shares;

(o) if the Collateral Manager consents, modify the Auction Procedures; or

(p) correct any manifest error in any provision of the Indenture upon receipt by the Trustee of written direction from the Issuers describing in reasonable detail such error and the modification necessary to correct such error;

provided that, in each such case, such supplemental indenture would not materially and adversely affect any holder of Notes or any Preference Shareholder or adversely affect any Interest Rate Swap Counterparty, the Synthetic Security Counterparty or the Initial Investment Agreement Provider. Unless notified by holders of a majority in aggregate outstanding principal amount of Notes of any Class, a Majority-in-Interest of Preference Shareholders, any Interest Rate Swap Counterparty, the Synthetic Security Counterparty or the Initial Investment Agreement Provider that such Class or the Preference Shareholders will be materially and adversely affected, or any Interest Rate Swap Counterparty will be adversely affected, or the Synthetic Security Counterparty will be adversely affected, or the Initial Investment Agreement Provider will be adversely affected, the Trustee may rely upon an opinion of counsel as to whether the interests of any Noteholder or Preference Shareholder would be materially and adversely affected, or any Interest Rate Swap Counterparty would be adversely affected, or the Synthetic Security Counterparty would be adversely affected, or the Initial Investment Agreement Provider would be adversely affected, by any such supplemental indenture (after giving ten days' notice of such change to each Noteholder, Preference Shareholder, any Interest Rate Swap Counterparty, the Synthetic Security Counterparty and the Initial Investment Agreement Provider). The Trustee may not enter into any such supplemental indenture if, with respect to such supplemental indenture, the Rating Condition would not be satisfied; *provided* that the Trustee may, with the consent of each holder of Notes of each Class with respect to which the Rating Condition would not be satisfied, enter into any such supplemental indenture notwithstanding any such reduction or withdrawal of the ratings of such Class of Notes.

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Notwithstanding any of the foregoing, the Trustee may not enter into any supplemental indenture without the prior written consent of the Collateral Manager, if such supplemental indenture adversely affects the Collateral Manager (as determined by the Collateral Manager in its reasonable judgment) in any respect or changes the rights or obligations of the Collateral Manager in any respect.

Modification of Certain Other Documents

Prior to entering into any amendment or other modification of, or consenting to or directing any assignment or termination of the Management Agreement or any Interest Rate Swap Agreement, the Issuer is required by the Indenture to obtain the written confirmation of each Rating Agency that the Rating Condition is satisfied with respect to such amendment, modification, assignment or termination. Prior to entering into any waiver in respect of any of the foregoing agreements, the Issuer is required to provide each Rating Agency, the Collateral Manager, any Interest Rate Swap Counterparty, the Synthetic Security Counterparty and the Trustee with written notice of such waiver. The Indenture also provides that the Issuer may not amend or modify, or consent to or direct any assignment or termination of the Administration Agreement without the prior written consent of a Special-Majority-in-Interest of Preference Shareholders, any Interest Rate Swap Counterparty and the Synthetic Security Counterparty (if such Interest Rate Swap Counterparty or Synthetic Security Counterparty would be adversely affected thereby). The Synthetic Security Counterparty will be an express third party beneficiary of the Indenture.

Consolidation, Merger or Transfer of Assets

Except under the limited circumstances set forth in the Indenture, neither of the Issuers may consolidate with, merge into, or transfer or convey all or substantially all of its assets to, any other corporation, partnership, trust or other person or entity.

Petitions for Bankruptcy

The Indenture provides that the Noteholders 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 (or, if longer, the applicable preference period then in effect, including any period established pursuant to the laws of the Cayman Islands) and one day have elapsed since the payment in full of all Notes.

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, within certain limitations (including the obligation to pay principal and interest, including Deferred Interest, Defaulted Interest and interest on Defaulted Interest), upon deposit with the Trustee of funds sufficient for the payment or redemption thereof and the payment by the Issuers of all other amounts due under the Notes, the Indenture, any Interest Rate Swap Agreement (including all relevant termination payments), the Administration Agreement, the Preference Share Paying Agency Agreement and the Management Agreement.

Trustee

Deutsche Bank Trust Company Americas will be the Trustee under the Indenture. The 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 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

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incurred without negligence, willful misconduct or bad faith on its part, arising out of or in connection with the acceptance or administration of the Indenture. Pursuant to the Indenture, the Issuer has granted to the Trustee a lien senior to that of the Noteholders to secure payment by the Issuer of the compensation and expenses of the Trustee and any sums the Trustee may be entitled to receive as indemnification by the Issuer under the Indenture (subject to the dollar limitations set forth in the Priority of Payments with respect to any Distribution Date), which lien the Trustee is entitled to exercise only under certain circumstances. The Trustee may resign at any time by giving written notice of such resignation to the Preference Share Paying Agent, the Issuers, the Noteholders, the Collateral Manager and each Rating Agency. The Trustee may be removed by 66 2/3% in aggregate outstanding principal amount of the Notes (voting together as a single Class) or, at any time when an Event of Default shall have occurred and be continuing or when a successor Trustee has been appointed pursuant to the Indenture, by a majority in aggregate outstanding principal amount of the Controlling Class. No resignation or removal of the Trustee will become effective until the acceptance of the appointment of a successor Trustee. In the Indenture, the Trustee will agree not to cause the filing of a petition for winding up or a petition in bankruptcy against the Issuers for nonpayment to the Trustee of amounts payable thereunder until at least one year, or if longer, the applicable preference period then in effect including any period established pursuant to the laws of the Cayman Islands, and one day after the payment in full of all of the Notes.

Characterization of the Notes

The Issuer will treat the Notes as indebtedness of the Issuer for U.S. federal, state and local income tax purposes. The Indenture will provide that each holder, by accepting a Note, agrees not to take any action inconsistent with such treatment unless required by law.

Governing Law

The Notes, the Indenture, the Subscription Agreements, the Management Agreement, the Collateral Administration Agreement, any Interest Rate Swap Agreement, each Synthetic Security, the Initial Investment Agreement, the Preference Share Paying Agency Agreement and the Note Purchase Agreement will be governed by the law of the State of New York. The Issuer Charter, the Preference Shares and the Administration Agreement will be governed by the law of the Cayman Islands.

Reports

The Issuer will deliver, or cause to be delivered, a monthly report (the **"Monthly Report"**), except for the months when it prepares the Note Valuation Report described below, containing certain information regarding, among other things, the characteristics and performance of the Underlying Assets included in the Collateral. The Issuer will deliver, or cause to be delivered, as of each Determination Date, a report (the **"Note Valuation Report"**), containing certain information regarding, among other things, the aggregate principal amount of, and payments of interest on or principal of, the Notes and the information with respect to the Underlying Assets normally included in the Monthly Report. In connection with the Monthly Report, the Issuer also shall provide, or cause to be provided, certain monitoring information to each Rating Agency as set forth in the Indenture. The Note Valuation Report will be delivered no later than 2 Business Days prior to the relevant Distribution Date.

Collateral Administrator

On or before the Closing Date, the Issuer shall enter into a collateral administration agreement (the **"Collateral Administration Agreement"**) among the Issuer, the Collateral Manager and Deutsche Bank Trust Company Americas, as collateral administrator (in such capacity, the **"Collateral**

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Administrator"), pursuant to which the Collateral Administrator will assist the issuer in certain data collection and compellation functions with respect to the Underlying Assets.

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CERTAIN TERMS OF THE PREFERENCE SHARES

The following summary describes certain terms and conditions applicable to the Preference Shares. This summary, together with other portions of this Offering Circular summarizing terms and conditions applicable to the Preference Shares, does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the Indenture, the Issuer Charter and the Preference Share Paying Agency Agreement.

Status of the Preference Shares

The Preference Shares are equity in the Issuer and are not secured by the Collateral securing the Notes. As such, the Preference Shareholders will, on a winding up of the Issuer, rank behind all of the creditors, whether secured or unsecured and known or unknown, of the Issuer, including, without limitation, the Noteholders, any Interest Rate Swap Counterparty, the Synthetic Security Counterparty, the Initial Investment Agreement Provider and any judgment creditors.

Payments in respect of the Preference Shares are subject to certain requirements imposed by Cayman Islands law. Any amounts paid by the Preference Share Paying Agent as distributions by way of dividend on the Preference Shares will be payable only if the Issuer has sufficient distributable profits and/or share premium. In addition, such distributions and the payment of Excess Principal Proceeds upon redemption of the Preference Shares will be payable only to the extent that the Issuer is and remains solvent after such distributions are paid. Under Cayman Islands law, a company is generally deemed solvent if it is able to pay its debts as they come due.

To the extent the requirements under Cayman Islands law described in the preceding paragraph are not met, amounts otherwise payable to the Preference Shareholders will be retained in the Preference Share Payment Account until, in the case of any payment by way of dividend which would otherwise be payable other than on a redemption date of the Preference Shares, the next succeeding 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, in each case on which the Issuer notifies the Preference Share Paying Agent that such requirements are met. Amounts on deposit in the Preference Share Payment Account will not be available to pay amounts due to the Noteholders, the Trustee, the Collateral Manager, the Administrator, any Interest Rate Swap Counterparty or any other creditor of the Issuer whose claim is limited in recourse to the Collateral. However, amounts on deposit in the Preference Share Payment Account may be subject to the claims of creditors of the Issuer that have not contractually limited their recourse to the Collateral.

Rights of Consent of the Preference Shareholders

Set forth below is a summary of certain matters with respect to which the consent of the Preference Shareholders is required or in respect of which the Preference Shareholders may give directions. This summary is not meant to be an exhaustive list.

Optional Redemption of the Notes: On any Distribution Date on or after the [] Distribution Date, the Notes may, subject to satisfaction of certain conditions described herein, be redeemed (in whole but not in part) at the direction of the holders of at least sixty-six and two thirds percent (66 2/3%) of the Preference Shares, as described under "Description of the Notes—Optional Redemption."

Tax Redemption of the Notes: On any Distribution Date, the Notes may, subject to satisfaction of certain conditions described herein, be redeemed (in whole but not in part) at the direction of a

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Majority-in-Interest of the Preference Shareholders, as described under "Description of the Notes—Tax Redemption."

The Management Agreement: For a description of certain of the rights of the Preference Shareholders in relation to the removal of the Collateral Manager and the appointment of a successor Collateral Manager, see "The Management Agreement."

The Indenture: The Issuer is not permitted to enter into a supplemental indenture without the consent of the Preference Shareholders, if materially and adversely affected thereby.

Auction Call Redemption of the Preference Shares

The Preference Shares will be subject to redemption pursuant to an Auction Call Redemption occurring on or after the First Auction Call Date under the circumstances described under "Description of the Notes—Auction Call Redemption."

Governing Law

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

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USE OF PROCEEDS

The gross proceeds received from the issuance and sale of the Notes and the Preference Shares will be approximately U.S.$[ ]. On the Closing Date, the Issuer will receive approximately U.S.$[ ] as the net proceeds from the issuance and sale of the Notes and the Preference Shares. The net proceeds from the issuance and sale of the Notes and the Preference Shares are the gross proceeds net of the payment of the placement and structuring fees related to the placement of the Notes and Preference Shares, the payment of other closing expenses and an initial deposit into the Expense Account. Such net proceeds from the issuance and sale of the Notes and the Preference Shares will be used by the Issuer to purchase a diversified portfolio of interests in Underlying Assets having the characteristics described herein under "Security for the Notes—Underlying Assets" and "—Closing Date Portfolio" and to fund certain accounts established under the Indenture.

On the Closing Date, the Issuer will have acquired (or committed to acquire for settlement in accordance with customary settlement procedures in the relevant markets) the entire portfolio. As of the Closing Date, the portfolio, along with funds on deposit in the Uninvested Proceeds Account, will consist of Underlying Assets (acquired or committed to be acquired) having an Aggregate Principal/Notional Balance (including principal collections on such Underlying Assets deposited in the Uninvested Proceeds Account on the Closing Date) of approximately U.S.$[ ]. Pending investment in Underlying Assets, the Uninvested Proceeds, if any, will be deposited into the Uninvested Proceeds Account and invested in Eligible Investments. In the event that there are any remaining Uninvested Proceeds on the Determination Date preceding the First Distribution Date, they will be transferred to the Payment Account and treated as Principal Proceeds on the First Distribution Date and distributed in accordance with the Priority of Payments.

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RATING OF THE NOTES

It is a condition to the issuance of the Notes that the Class A-1 Notes be rated "Aaa" by Moody's and "AAA" by Standard & Poor's, that the Class A-2 Notes be rated "Aaa" by Moody's and "AAA" by Standard & Poor's, that the Class B Notes be rated at least "Aa2" by Moody's and "AA" by Standard & Poor's, that the Class C Notes be rated at least "A2" by Moody's and "A" by Standard & Poor's, that the Class D Notes be rated at least "Baa2" by Moody's and "BBB" by Standard & Poor's and that the Class E Notes be rated at least "Ba1" by Moody's and "BB+" by Standard & Poor's. The ratings assigned to the Class A Notes and the Class B Notes by Standard & Poor's address the timely payment of interest on, and the ultimate payment of the principal of, the Class A Notes and the Class B Notes. The ratings assigned to the Class C Notes, the Class D Notes and the Class E Notes by Standard & Poor's address the ultimate payment of principal of, and the ultimate payment of interest on, the Class C Notes, the Class D Notes and the Class E Notes. The ratings assigned to the Notes by Moody's address the ultimate cash receipt of all required payments as provided by the governing documents, and are based on the expected loss to the Noteholders of each Class relative to the promise of receiving the present value of such payments. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

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MATURITY AND PREPAYMENT CONSIDERATIONS

The Stated Maturity of each Class of Notes is the [] Distribution Date. The Notes will mature at their Stated Maturity unless redeemed or repaid prior thereto. However, the average lives of the Notes may be less than the number of years until the Stated Maturity. Based on the portfolio of Underlying Assets that the Collateral Manager expects the Issuer to purchase no later than the Determination Date preceding the First Distribution Date, and assuming (a) no Underlying Assets default, and (b) prepayment of any Underlying Assets during any month occurs at a rate equal to an average rate of prepayment specified by the Collateral Manager, redemption will occur and the average life of each Class of Notes from the Closing Date will be as follows:

Class	Average Life in Years assuming an Auction Call Redemption occurring in []
Class A-1 Notes	[]
Class A-2 Notes	[]
Class B Notes	[]
Class C Notes	[]
Class D Notes	[]
Class E Notes	[]

Such average lives of the Notes are presented for illustrative purposes only. Although the Collateral Manager prepared the list in **Schedule A** identifying the portfolio of Underlying Assets that the Issuer will purchase on the Closing Date (or that the Issuer has committed on or prior to the Closing Date to purchase thereafter for settlement in accordance with customary settlement procedures in the relevant markets), the assumptions used to calculate the average lives of the Notes are necessarily arbitrary, do not necessarily reflect historical experience with respect to securities similar to the Underlying Assets and do not constitute a prediction with respect to the rates or timing of receipts of Interest Proceeds or Principal Proceeds, defaults, recoveries, sales, prepayments or optional redemptions to which the Underlying Assets may be subject. Actual experience as to these matters will differ, and may differ materially, from that assumed in calculating the illustrative average lives set forth above, and consequently the actual average lives of the Notes will differ, and may differ materially, from those set forth above. In addition, the assumptions set forth above do not necessarily reflect historical performance and defaults for Asset-Backed Securities and the Issuer makes no representation or warranty that such assumptions are appropriate or reasonable. Accordingly, prospective investors should make their own determinations of the expected weighted average lives and maturity of the Notes and, accordingly, their own evaluation of the merits and risks of an investment in the Notes. See "Risk Factors—Projections, Forecasts and Estimates."

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

The average lives of the Notes will be determined by the amount and frequency of principal payments. The actual average lives of the Notes will also be affected by the financial condition of the obligors of the Underlying Assets and the characteristics of such obligations, including the existence and

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frequency of exercise of any optional or mandatory redemption or prepayment features, the prevailing level of interest rates, the redemption price and the actual default rate and the actual level of recoveries on any Defaulted Securities. The rate of future defaults and the amount and timing of any cash realization from Defaulted Securities also will affect the average lives of the Notes.

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SECURITY FOR THE NOTES

General

The Collateral securing the Notes will consist of:

(a) the Underlying Assets and Equity Securities (if any) and the Offset Transactions and the Offsetting Transactions;

(b) the rights of the Issuer under any Interest Rate Swap Agreement;

(c) amounts on deposit in the Payment Account, the Interest Collection Account, the Principal Collection Account, the Expense Account, the Uninvested Proceeds Account, the Synthetic Security Collateral Account, the Disposition Proceeds Account and the Synthetic Security Issuer Account (collectively, the **"Accounts"**) and Eligible Investments purchased with funds on deposit in such accounts;

(d) the rights of the Issuer under the Management Agreement, the Note Purchase Agreement, the Subscription Agreements, the Collateral Administration Agreement and the Administration Agreement; and

(e) all proceeds of the foregoing (collectively, the **"Collateral"**). The Collateral will not include the Excepted Property.

Underlying Assets—Asset-Backed Securities

An **"Asset-Backed Security"** includes any Dollar-denominated asset-backed security or any security that represents a direct or indirect interest in such an asset-backed security that, at the time of acquisition (or commitment for acquisition) by the Issuer on the Closing Date, is not a Prohibited Asset or a Defaulted Asset and which satisfies each of the following conditions:

(a) it provides for a fixed amount payable in cash no later than its stated maturity;

(b) the Underlying Instruments with respect to such Asset-Backed Security do not prohibit it from being purchased by the Issuer and pledged to the Trustee;

(c) it is not denominated or payable in, or convertible into an obligation or security denominated or payable in, a currency other than Dollars;

(d) it does not require the Issuer to make future advances or payments to the obligor or issuer;

(e) it has a Standard & Poor's Rating (excluding those with a rating from Standard & Poor's which includes the subscript "p", "pi", "q", "r" or "t") and a Moody's Rating;

(f) it is not "margin stock" and does not provide for conversion into "margin stock";

(g) it is not subject to an Offer;

(h) it (or, if it is a certificate of beneficial interest in an entity that is treated as a grantor trust or a partnership and not as a REMIC or FASIT for U.S. federal income tax purposes,

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each of the debt instruments or securities held by such entity) is described in at least one of the following four clauses:

(I) it is a Public Security that was issued in a firm commitment underwriting for which neither the Collateral Manager nor an Affiliate thereof served as underwriter;

(ii) it was not purchased by the Issuer (A) directly or indirectly from its issuer, (B) pursuant to a legally binding agreement made before the issuance of the obligation or security or (C) from the Collateral Manager or any of its Affiliates unless such entity (1) regularly acquires securities of the same type for its own account, (2) could have held the obligation or security for its own account consistent with its investment policies, (3) did not identify the obligation or security as intended for sale to the Issuer or the Collateral Manager within 30 days of its issuance and (4) held the obligation or security for at least 30 days;

(iii) it is a Private Security and

(A) it was originally issued pursuant to an offering circular, private placement memorandum or similar offering document;

(B) the Issuer, the Collateral Manager and the Affiliates of the Collateral Manager did not at original issuance acquire [20]% or more of the aggregate principal amount of all classes of securities offered by the issuer of the Asset-Backed Security in the offering and any related offering; provided in each case that any acquisition by an Affiliate of the Collateral Manager that is not a member of the Collateral Manager Group shall be included only if the Collateral Manager or any of its employees or agents knew or had reason to know of such acquisition; and

(C) the Issuer, the Collateral Manager and any Affiliate of the Collateral Manager did not participate in negotiating or structuring the terms of the Asset-Backed Security, except (1) to the extent such participation consisted of an election by the Issuer, the Collateral Manager or an Affiliate of the Collateral Manager to tranche the subordinate classes of securities of an issue in the form of one of the structuring options offered by the issuer of the securities or (2) for the purposes of (i) commenting on offering documents to an unrelated underwriter or placement agent where the ability to comment on such documents was generally available to investors or (ii) due diligence of the kind customarily performed by investors in securities, or (3) to the extent the Collateral Manager or any Affiliate of the Collateral Manager, either directly or indirectly through a conduit issuer, was the issuer of the Asset-Backed Security; provided that any participation in negotiating or structuring by any Affiliate of the Collateral Manager that is not a member of the Collateral Manager Group shall be included only if the Collateral Manager or any of its employees or agents knew or had reason to know of such participation; or

(iv) it is either (A) the sole material obligation of a repackaging vehicle formed and operated exclusively to hold a single Asset-Backed Security described in at least

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one of clauses (h)(i), (h)(ii) or (h)(iii), which vehicle may also hold a derivative financial instrument or guarantee designed solely to offset one or more terms of such Asset-Backed Security or (B) a security issued by a repackaging vehicle that holds one or more Asset-Backed Securities described in at least one of clauses (h)(i), (h)(ii), (h)(iii), or (h)(iv)(A) and which is treated as a REMIC, FASIT, grantor trust, or partnership for U.S. federal income tax purposes, and is formed by the Collateral Manager or one of its Affiliates;

(i) If interest income on an Asset-Backed Security is considered U.S.-source income for U.S. federal income tax purposes, it is in registered form for U.S. federal income tax purposes and it (and if it is a certificate of interest in a trust that is treated as a grantor trust and not as a REMIC or FASIT for U.S. federal income tax purposes, each of the obligations or securities held by such trust) was issued after July 18, 1984; provided that, if it is a certificate of beneficial interest in an entity that is treated as a partnership for U.S. federal income tax purposes, each of the obligations or securities held by such entity is in registered form for U.S. Federal income tax purposes and was issued after July 18, 1984 (a **"Registered"** obligation or security);

(j) either (I) the Issuer meets the certification and other requirements to receive payments with respect to the Asset-Backed Security free of U.S. and foreign withholding tax, (II) the issuer thereof is required to make additional payments sufficient on an after-tax basis to cover any U.S. and foreign withholding tax imposed on payments made to the Issuer with respect thereto (including any tax on the additional payments described in this paragraph) or (III) the issuer thereof has obtained or expects to obtain in the ordinary course and not more than six weeks following the issuance thereof an exemption from withholding tax for the entire period during which the Notes and the Preference Shares will be outstanding; provided that, for purposes of this clause (h), a determination that an Asset-Backed Security is eligible for exemption from U.S. withholding tax under Section 871(h) or Section 881(c) of the Code may be based on advice of Allen & Overy LLP or an opinion of counsel that the Asset-Backed Security will or should be treated as debt for U.S. federal income tax purposes;

(k) (i) the Asset-Backed Security is the obligation of a single Issuer incorporated as a corporation under the state or federal laws of the United States, that is not a U.S. real property holding company; (ii) the Issuer has been advised by Allen & Overy LLP or has received an opinion of counsel that owning the Asset-Backed Security will not subject the Issuer to U.S. federal income tax on a net income basis or cause the Issuer to be treated as engaged in a trade or business within the United States; (iii) the Issuer has received an opinion of counsel that the Asset-Backed Security will be treated as debt for U.S. federal income tax purposes; (iv) the Issuer has received an opinion of counsel that for U.S. federal income tax purposes (A) the issuer of the Asset-Backed Security is a grantor trust and (B) all the assets of the trust are regular interests in a REMIC or FASIT or interest rate floors, caps, swaps or other notional principal contracts (within the meaning of applicable Treasury Regulations), the payments under which are determined solely by reference to interest rates, or (v) the Alternative Debt Test is satisfied, provided that, for purposes of clauses (f), (g), (h) and this clause (i), (1) an opinion of counsel that the issuer of an Asset-Backed Security will be treated as a REMIC or FASIT for U.S. federal income tax purposes shall be treated as an opinion of counsel that the Asset-Backed Security will be treated as debt for U.S. federal income tax purposes (unless the Asset-Backed Security is the residual interest in the REMIC or the ownership interest in the

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FASIT), (2) if there has been no change in the terms of an Asset-Backed Security prior to its acquisition, the Issuer shall be treated as having received an opinion that it will or should be treated as debt if the Issuer either has obtained a tax opinion to that effect rendered at the issuance of such Asset-Backed Security or has received offering documents pursuant to which such Asset-Backed Security was offered that include a tax opinion to such effect or state that an opinion of counsel to such effect has been rendered, and (3) if there has been no change in any of the organizational documents of an entity issuing an Asset-Backed Security since its issuance, the Issuer shall be treated as having received an opinion that such entity will be treated as a corporation, partnership, grantor trust, REMIC or FASIT (as the case may be) for U.S. federal income tax purposes if the Issuer either has obtained a tax opinion to that effect rendered at the time of the issuance of the Asset-Backed Security or has obtained offering documents that include an opinion of counsel to such effect or state that an opinion of counsel to such effect has been rendered;

(l) it is not a swap transaction or other derivative financial instrument referencing a debt instrument;

(m) acquisition of the Asset-Backed Security will not cause the Issuer to register, or be required to register, under the Investment Company Act;

(n) it is not convertible into one or more Equity Securities;

(o) it is not currently deferring interest or a Written Down Security;

(p) it is expected to have an outstanding Principal/Notional Balance of less than U.S.$1,000 as of the Stated Maturity of the Notes, assuming a constant prepayment rate since the date of purchase equal to the lesser of (a) 5.0% per annum and (b) the constant prepayment rate reasonably expected by the Collateral Manager as of the date of purchase, or, if constant prepayment rate is not applicable, the slowest prepayment scenario as described in the prospectus relating to such Asset-Backed Security; and

(q) it will be pledged to the Trustee under the Indenture.

An **"A/B Exchange"** is an exchange of one security (the **"A Security"**) for another security (the **"B Security"**) of the same issuer or issuers which B Security shall have substantially identical terms to the A Security except that one or more restrictions applicable to the A Security are inapplicable to the B Security.

The **"Alternative Debt Test"** is satisfied with respect to a security if, on the date the Issuer acquires such security, each of the following is satisfied:

(a) such security is in the form of a note or other debt instrument and is treated as debt for corporate law purposes in the jurisdiction of the issuer of such security;

(b) the documents pursuant to which such security was offered, if any, do not require that any holder thereof treat such security other than as debt for tax purposes;

(c) such security bears interest at a fixed rate per annum or at a rate based upon a customary floating rate index plus or minus a spread and does not provide for any interest based on any other factor, such as the issuer's profits or cash flow;

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(d) such security had a fixed term at original issuance not in excess of 35 years;

(e) such security provides for a fixed principal amount (leaving no amount outstanding) payable no later than its stated maturity; and

(f) such security is rated at least "BBB " by Fitch, at least "BBB " by Standard & Poor's or at least "Baa3" by Moody's, and if so rated, such rating is not on watch for downgrade by Moody's, as to ultimate payment of principal and interest; provided that, in the case of a security in the form of a beneficial interest in an entity that is treated (as evidenced by an opinion of counsel or a reference to an opinion of counsel in documents pursuant to which such security was offered) as a grantor trust or a partnership for U.S. federal income tax purposes and not as an association taxable as a corporation, any of the conditions specified in clauses (a), (b), (c), (d) and (e) may be satisfied by reference to each asset held by such entity rather than by reference to such beneficial ownership interests.

"Collateral Manager Group" means the Collateral Manager and any directly or indirectly controlled subsidiary of the Collateral Manager.

An **"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.

A **"Private Security"** is any security that is not a Public Security, including, without limitation, any of the following:

(a) any security that was not (i) issued pursuant to an effective registration statement under the Securities Act or (ii) a privately placed security that is eligible for resale under Rule 144A or Regulation S under the Securities Act;

(b) any security (other than a Public Security or a security described by clause (c) below) that is eligible for resale under Rule 144A under the Securities Act; or

(c) any security that is not a Public Security but that (i) is eligible for resale by the Issuer under Rule 144A under the Securities Act and (ii) with respect to which the Issuer, either by itself or together with other holders of such securities, has the right to require the issuer thereof (or such issuer is otherwise obligated or is penalized if such item is not so registered), within one year from any date of determination, to register under the Securities Act the public resale of such security or to effect an A/B Exchange; provided that clause (ii) does not apply to Asset-Backed Securities.

A **"Prohibited Asset"** is any of the following: (a) any asset the ownership of which would cause the Issuer to be subject to income tax on a net income basis in any jurisdiction, or (b) any asset the gain from the Disposition of which will be subject to U.S. federal income or withholding tax under Section 897 or Section 1445 of the Code and Treasury Regulations promulgated thereunder; *provided, however*, that the Issuer shall set up a special purpose subsidiary (which shall be a corporation for U.S. tax purposes) to receive and hold an Equity Security, unless it has consulted with its tax counsel and has been advised

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that the Issuer can hold the Equity Security directly without causing the Issuer to be treated as engaged in a trade or business in the United States for U.S. federal income tax purposes.

A **"Public Security"** is any of the following: any security (a) the public resale of which by the Issuer either has been registered under the Securities Act or is exempt from such registration pursuant to Section 4(1) or Rule 144(k) under the Securities Act, (b) issued or guaranteed by Government National Mortgage Association, Federal National Mortgage Association and Federal Home Loan Mortgage Corporation or (c) issued by an issuer organized outside of the United States and registered in the jurisdiction where the issuer is organized.

Asset-Backed Securities

The Underlying Assets will consist of Asset-Backed Securities, which may include CMBS Securities, RMBS Securities, Automobile Securities, Car Rental Fleet Securities, CDO Securities, Credit Card Securities, Equipment Lease Securities, Small Business Loan Securities and Student Loan Securities, or Synthetic Securities with Reference Obligations as Asset-Backed 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 the Asset-Backed Securities.

Issuers of Asset-Backed Securities are primarily banks and finance companies, captive finance subsidiaries of non-financial corporations or specialized originators such as credit card lenders, or trusts or entities formed by such institutions to issue 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. 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' interests 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

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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, mortgage insurance 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. 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

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mortgages and 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 at greater than 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 GAAP, issuers are required to recognize on their balance sheet an excess yield asset that is based on the fair value of the expected future excess yield; in principle, this value would be based on the net present value of the expected earnings stream from the transaction. Issuers are further required to revalue the asset periodically to take account of changes in fair value that may occur due to interest rates, actual credit losses and other factors relevant to the future stream of excess yield.

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

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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 (a) losses due to defaults by the borrowers in the underlying collateral, (b) the issuer's or servicer's failure to perform and (c) fraud. These 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.

A list of all Underlying Assets to be acquired by the Issuer on the Closing Date is set forth in **Schedule A** attached hereto. The Underlying Assets are divided into different **"Specified Types "**. The Specified Types are set forth below.

"ABX Tranche Security" means Underlying Assets that are issued by a special purpose issuer as part of an ABX.HE index administered and marketed by Markit Group Limited.

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"Automobile Securities" means Underlying Assets 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 purchase of, or from leases of, automobiles, generally having the following characteristics: (1) the loans or leases may have varying contractual maturities; (2) the loans or leases are obligations of numerous borrowers or lessors and accordingly represent a diversified pool of obligor credit risk; (3) 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 (4) 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.

"Car Rental Fleet Securities" means Underlying Assets 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 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.

"CDO Securities" means 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 CDO Securities) on the cash flow from a portfolio of Synthetic Securities, Asset-Backed Securities, Commercial Mortgage-Backed Securities, Residential Mortgage-Backed Securities, bank loan securities, domestic corporate debt securities, high-grade asset-backed securities and trust preferred securities or any combination of the foregoing, generally having the following characteristics: (1) the securities have varying contractual maturities; (2) the securities are obligations of a relatively limited number of obligors or issuers and accordingly represent a relatively undiversified pool of obligor credit risk; (3) repayment thereof can vary substantially from the contractual payment schedule (if any), with early prepayment of individual securities depending on numerous factors specific to the particular issuers or obligors and upon whether, in the case of securities bearing interest at a fixed rate, such securities include an effective prepayment premium; and (4) proceeds from such repayments can for a limited period and subject to compliance with certain eligibility criteria be reinvested in additional securities.

"CMBS 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 commercial mortgage loans made to finance the acquisition, construction and improvement of properties or (b) the leasing of such properties to corporate tenants. They generally have the following characteristics: (a) the commercial mortgage loans have varying contractual maturities; (b) the commercial mortgage loans are secured by real property purchased or improved with the proceeds thereof; (c) the commercial mortgage loans are obligations of a relatively limited number of obligors and accordingly represent a relatively undiversified pool of obligor credit risk; (d) repayment thereof can vary substantially from the contractual payment schedule (if any), with early prepayment of individual loans

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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.

"Commercial ABS Securities" means Equipment Lease Securities and Small Business Loan Securities; and any other type of Asset-Backed Securities that becomes a Specified Type after the Closing Date as described below and is designated as "Commercial ABS Securities" in connection therewith.

"Consumer ABS Securities" means Automobile Securities, Car Rental Fleet Securities, Consumer Loan Securities, Credit Card Securities and Student Loan Securities; and any other type of Asset-Backed Securities that becomes a Specified Type after the Closing Date as described below and is designated as "Consumer ABS Securities" in connection therewith.

"Consumer Loan Securities" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from balances outstanding under revolving consumer loan accounts, generally having the following characteristics: (1) the accounts have standardized payment terms; (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 Card Securities" means Underlying Assets that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from balances outstanding under revolving consumer credit card accounts, generally having the following characteristics: (1) the accounts have standardized payment terms and require minimum monthly payments; (2) the balances are obligations of numerous borrowers and accordingly represent a 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.

"Emerging Market " means 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 "AA" by Standard & Poor's;

"Equipment Lease Securities" means Underlying Assets 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 Underlying Assets) on the cash flow from leases and subleases of equipment 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.

"FICO Score" means the credit score developed by Fair Isaac & Co and provided by Experian (a subsidiary of GUS plc), Trans Union LLC or Equifax Inc.

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"High LTV RMBS Security" means a Residential B/C Mortgage-Backed Security that depends primarily on the cash flow from subprime residential mortgage loans with loan-to-value ratios of greater than 80%.

"Mid-Prime Securities" means Residential Securities that have a FICO Score above 625 and below 700.

"Non-Subprime Home Equity Loan Asset-Backed Securities" means Underlying Assets (other than Residential B/C Mortgage-Backed Securities and Residential A Mortgage-Backed Securities) that entitle their holders to receive payments that depend primarily on the cash flow from balances (including revolving balances) outstanding under loans or lines of credit to non-subprime borrowers secured by residential real estate (single or two-or-four-family properties) the proceeds of which loans or lines of credit are not generally used to purchase such real estate or to purchase or construct dwellings thereon (or to refinance indebtedness previously used for such purchase or construction), generally having the following characteristics: (1) the balances have standardized payment terms and require minimum monthly payments; (2) the balances are obligations of numerous borrowers and accordingly represent a diversified pool of obligor credit risk; (3) the repayment stream on such balances does not depend upon a contractual payment schedule, with early repayment depending primarily on interest rates and general economic matters; and (4) the loan or line of credit may be secured by residential real estate with a market value (determined on the date of origination of such loan or line of credit) that is less or more than the original proceeds of such loan or line of credit.

"Prime Securities" means Residential Securities that have a FICO Score equal to or above 700.

"Residential A Mortgage-Backed Securities" means Underlying Assets (other than Residential B/C Mortgage-Backed Securities and Non-Subprime Home Equity Loan Asset-Backed Securities) that entitle their holders to receive payments that depend primarily on the cash flow from prime residential mortgage loans secured (on a first priority basis, subject to permitted liens, easements and other encumbrances) by residential real estate (single or two-to-four-family properties) the proceeds of which were 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 standardized payment terms and require minimum monthly payments; (2) the mortgage loans are obligations of numerous borrowers and accordingly represent a diversified pool of obligor credit risk; (3) repayment of such securities can vary substantially from their contractual payment schedules and depends entirely upon the rate at which the mortgage loans are repaid; and (4) the repayment of such mortgage loans is subject to a contractual payment schedule, with early prepayment of individual loans depending on numerous factors specific to the particular obligors and upon whether, in the case of loans bearing interest at a fixed rate, such loans or securities include an effective prepayment premium and with early repayment depending primarily on interest rates and the sale of the mortgaged real estate and related dwelling and generally no penalties for early repayment.

"Residential B/C Mortgage-Backed Securities" means Underlying Assets (other than Residential A Mortgage-Backed Securities and Non-Subprime Home Equity Loan Asset-Backed Securities) that entitle their holders to receive payments that depend primarily on the cash flow from subprime residential mortgage loans secured (on a first priority basis, subject to permitted liens, easements and other encumbrances) by residential real estate (single or two-to-four-family properties) the proceeds of which were 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 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

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schedules and depends entirely upon the rate at which the mortgage loans are repaid; and (4) the repayment of such mortgage loans is subject to a contractual payment schedule, with early prepayment of individual loans depending on numerous factors specific to the particular obligors and upon whether, in the case of loans bearing interest at a fixed rate, such loans or securities include an effective prepayment premium and with early repayment depending primarily on interest rates and the sale of the mortgaged real estate and related dwelling and generally no penalties for early repayment.

"Residential Securities" or **"RMBS Securities"** means Residential A Mortgage-Backed Securities, Residential B/C Mortgage-Backed Securities and Non-Subprime Home Equity Loan Asset-Backed Securities.

"Small Business Loan Securities" means Asset-Backed Securities (other than Franchise 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, gasoline, restaurant or food services 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.

"Franchise 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, gasoline, restaurant or food services 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.

"Student Loan Securities" means Underlying Assets 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:

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(1) the loans have standardized terms; (2) the loans are obligations of numerous borrowers and accordingly represent a diversified pool of obligor credit risk; (3) the repayment stream on such loans is primarily determined by a contractual payment schedule, with early repayment on such loans predominantly dependent upon interest rates and the income of borrowers following the commencement of amortization; and (4) such loans may be fully or partially insured or reinsured by the United States Department of Education.

"Sub-Prime Securities" means Residential Securities that have a FICO Score equal to or below 625.

Underlying Assets—Synthetic Securities

The following is a description of the Synthetic Securities. The terms used in this Section "—Synthetic Securities" but not otherwise defined in this Offering Circular have the meanings set forth in the form of Confirmation attached hereto as **Schedule H** in the case of Reference Obligations that are RMBS Securities, in the form of Confirmation attached hereto as **Schedule I** in the case of Reference Obligations that are ABX Tranche Securities, in the form of Confirmation attached hereto as **Schedule J** in the case of Reference Obligations that are CMBS Securities or in the form of Confirmation attached hereto as **Schedule K** in the case of Reference Obligations that are CDO Securities. The terms of any additional Synthetic Security may vary substantially from the terms described below and in the Confirmation. Any material change to the terms of an additional Confirmation will be required to satisfy the Rating Condition.

Prior to the Closing Date, the Issuer entered into a series of credit default swaps (each a **"Synthetic Security"**) with Deutsche Bank AG (in such role, the **"First Synthetic Security Counterparty"**). Each Synthetic Security relates to a Reference Obligation whereby the Issuer sells credit protection to the related Synthetic Security Counterparty on such Reference Obligation. Each Synthetic Security will be entered into pursuant to a 1992 ISDA Master Agreement (Multicurrency-Cross Border), including the schedule thereto (the **"Master Agreement"**), between the Issuer and a Synthetic Security Counterparty, and a separate confirmation of transaction (a **"Confirmation"**) evidencing the Synthetic Security thereunder. Each Confirmation may evidence several different transactions, each of which is separate and distinct from all others documented under such Confirmation and relates to an individual Reference Obligation that is an Asset-Backed Security. Terms used in this section and not defined herein or in the Confirmations attached hereto as (i) **Schedule H** in the case of Reference Obligations that are RMBS Securities, in the form of Confirmation, (ii) attached hereto as **Schedule I** in the case of Reference Obligations that are ABX Tranche Securities, (iii) in the form of Confirmation attached hereto as **Schedule J** in the case of Reference Obligations that are CMBS Securities or (iv) in the form of Confirmation attached hereto as **Schedule K** in the case of Reference Obligations that are CDO Securities will have the meanings specified in the 2003 ISDA Credit Derivatives Definitions as published by ISDA (the **"Credit Derivatives Definitions"**).

For the avoidance of doubt the Synthetic Securities will exclude any Offsetting Transactions and any Synthetic Security that constitutes a component of the Offset Transactions shall cease to be a Synthetic Security from and including the time the relevant Offsetting Transaction is effective.

"Reference Obligation" means any Asset-Backed Security that, as of the related trade date, satisfies the Eligibility Criteria.

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

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On or before the [] Distribution Date and only in accordance with the Eligibility Criteria, the Issuer may (i) enter into additional Synthetic Securities with the First Synthetic Security Counterparty and/or (ii) enter into new Synthetic Securities with different synthetic security counterparties (together with the First Synthetic Security Counterparty, the **"Synthetic Security Counterparties"**) made pursuant to a separate Master Agreement and Confirmation; *provided* that after giving effect to any such transaction, the Synthetic Security Collateral Amount equals or exceeds the Required Synthetic Security Collateral Amount. The **"Synthetic Security Collateral Amount"** equals on any date of determination, the amount on deposit in the related Synthetic Security Collateral Account, if any (including the Aggregate Principal/Notional Balance of the Eligible Investments on deposit in such account, but excluding all earnings on such Eligible Investments). The **"Required Synthetic Security Collateral Amount"** equals, with respect to each Synthetic Security Counterparty, on any date of determination, the Aggregate Principal/Notional Balance of all Synthetic Securities entered into with such Synthetic Security Counterparty *minus* the Aggregate Principal/Notional Balance of all Offset Transactions with respect to Synthetic Securities entered into with such Synthetic Security Counterparty. Each Master Agreement entered into with a Synthetic Security Counterparty shall be substantially identical to the Master Agreement entered into between the Issuer and the First Synthetic Security Counterparty prior to closing or, if not substantially identical, shall be approved by the First Synthetic Security Counterparty and each Rating Agency. Each Confirmation entered into with a Synthetic Security Counterparty shall be substantially similar to (w) the form of Confirmation attached hereto as **Schedule H** in the case of Reference Obligations that are RMBS Securities, (x) the form of Confirmation attached hereto as **Schedule I** in the case of Reference Obligations that are ABX Tranche Securities, (y) the form of Confirmation attached hereto as **Schedule J** in the case of Reference Obligations that are CMBS Securities or (z) the form of Confirmation attached hereto as **Schedule K** in the case of Reference Obligations that are CDO Securities or, if not substantially similar, shall be approved by each other Synthetic Security Counterparty and each Rating Agency.

Each Synthetic Security Counterparty has the right in the event of an assignment of the relevant Synthetic Security to reject any replacement for the Issuer. In deciding whether to accept or reject a replacement for the Issuer, the Synthetic Security Counterparty does not have to consider the interests of the Issuer or the Noteholders. If as of any Determination Date, the amount on deposit in the Synthetic Security Collateral Account exceeds the Required Synthetic Security Collateral Amount, such excess amount will be deposited into the Principal Collection Account and deemed to be Principal Proceeds. Under each Synthetic Security, on each Fixed Rate Payer Payment Date, the related Synthetic Security Counterparty will be obligated to pay the Fixed Amounts to the Issuer. The First Synthetic Security Counterparty will pay the Fixed Amount to the Issuer as determined by Deutsche Bank AG as calculation agent (together with its permitted successors and assigns in such capacity, the **"Synthetic Security Calculation Agent"**).

In addition, on each Fixed Rate Payer Payment Date, the related Synthetic Security Counterparty will be obligated to pay the Additional Fixed Amount, if due, to the Issuer. The Additional Fixed Amount is comprised of Interest Shortfall Reimbursement Payment Amounts, Writedown Reimbursement Payment Amounts and Principal Shortfall Reimbursement Payment Amounts.

Under each Synthetic Security, on each Floating Rate Payer Payment Date, the Issuer will be obligated to pay the applicable Floating Amounts to the related Synthetic Security Counterparty.

Each Synthetic Security Counterparty may, at its option, at any time following the occurrence of a Credit Event, physically deliver all or a portion of the underlying Reference Obligation to the Issuer (any such delivered Reference Obligation or portion thereof, a **"Delivered Obligation"**) with an Exercise Amount not to exceed the Notional Amount of the related Synthetic Security. Upon such physical delivery

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of any Reference Obligation or portion thereof, the Issuer will be obligated to pay to the related Synthetic Security Counterparty an amount in cash equal to the Physical Settlement Amount. Any such Delivered Obligation will be credited to a securities account maintained with the Trustee subject to the lien of the Indenture. Upon delivery, any Delivered Obligation will be deemed to be an Underlying Asset and will have the same effect on the Eligibility Criteria as the related Synthetic Security prior to the delivery and with a Principal/Notional Balance equal to its outstanding Principal/Notional Balance. **"Notional Amount"** of any Synthetic Security will equal the **"Reference Obligation Notional Amount"** as defined in such Synthetic Security.

Allocation Procedures. With respect to the Synthetic Securities and Offsetting Transactions, and before any disbursements are made pursuant to "Description of the Notes—Priority of Payments—Interest Proceeds" and "—Principal Proceeds" (i) Floating Payments and other amounts due under any Synthetic Security, (ii) Physical Settlement Amounts, (iii) Principal Payment Amounts, (iv) payments of Additional Fixed Amounts, (v) termination amounts and (vi) Offsetting Transactions will be allocated in accordance with the **"Allocation Procedures"** described below and such amounts will not be applied through the Priority of Payments unless specifically set forth below:

(i) Floating Payments and other amounts due under the Synthetic Securities. If on any Business Day, Floating Payments or any other amounts are due and payable by the Issuer in accordance with the provisions of any Synthetic Security, other than Interest Shortfall Amounts and any termination payments with respect to an early termination or an event of default (the **"Synthetic Security Payment Amount"**), the Trustee shall, on behalf of the Issuer, and pursuant to instruction of the Issuer or Collateral Manager acting on its behalf, subject to the procedures set forth in the Indenture:

(A) withdraw from the Synthetic Security Collateral Account (including, at the Collateral Manager's discretion, by withdrawing the necessary amount from the Investment Agreement) an amount equal to the lesser of (1) the amount credited to the Synthetic Security Collateral Account and (2) the Synthetic Security Payment Amount; and

(B) if the amount withdrawn under (A) above is less than the Synthetic Security Payment Amount, withdraw from the Principal Collection Account an amount equal to the lesser of (1) the amount credited to the Principal Collection Account and (2) the Synthetic Security Payment Amount less the amounts withdrawn pursuant to clause (A) above.

The Trustee, on behalf of the Issuer, and pursuant to instruction of the Issuer or Collateral Manager acting on its behalf, shall pay such proceeds to the relevant Synthetic Security Counterparty in an amount equal to the Synthetic Security Payment Amount.

(ii) Physical Settlement Amount. If on any Business Day, the Physical Settlement Amount for any Delivered Obligation is due and payable by the Issuer to the relevant Synthetic Security Counterparty pursuant to the terms of the related Synthetic Security, the Trustee shall, on behalf of the Issuer, and pursuant to instruction of the Issuer or Collateral Manager acting on its behalf, subject to the procedures set forth in the Indenture:

(A) withdraw from the Synthetic Security Collateral Account (including, at the Collateral Manager's discretion, by withdrawing the necessary amount

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from the Investment Agreement) an amount equal to the lesser of (1) the amount credited to the Synthetic Security Collateral Account and (2) the Physical Settlement Amount; and

(B) if the amount withdrawn under (A) above is less than the Physical Settlement Amount, withdraw from the Principal Collection Account an amount equal to the lesser of (1) the amount credited to the Principal Collection Account and (2) the Physical Settlement Amount less the amounts withdrawn pursuant to clause (A) above.

The Trustee, on behalf of the Issuer, and pursuant to instruction of the Collateral Manager, shall pay such proceeds to the relevant Synthetic Security Counterparty in an amount equal to the Physical Settlement Amount.

(iii) Principal Payment Amount. If on any Business Day, there is a Principal Payment Amount with respect to any Reference Obligation under a Synthetic Security, the Trustee shall, on behalf of the Issuer, and pursuant to instruction of the Collateral Manager, subject to the procedures set forth in the Indenture, withdraw from the Synthetic Security Collateral Account (including, at the Collateral Manager's discretion, by withdrawing the necessary amount from the Investment Agreement), an amount equal to the lesser of (1) the amount credited to the Synthetic Security Collateral Account (including the amount that the Issuer can withdraw from the Investment Agreement) and (2) the Principal Payment Amount, and such withdrawn amounts will be deemed to be Principal Proceeds and credited to the Principal Collection Account.

(iv) Payments of Additional Fixed Amounts. If on any Business Day, the Issuer receives Additional Fixed Amounts, the Issuer shall allocate (i) any Interest Shortfall Reimbursement Payment Amount, into the Interest Collection Account as Interest Proceeds and (ii) any Writedown Reimbursement Payment Amount and any Principal Shortfall Reimbursement Payment Amount into the Synthetic Security Collateral Account.

(v) Termination or Novation of a Synthetic Security. If on any Business Day, (A)(x) there is an early termination of a Synthetic Security resulting from a termination event or an event of default pursuant to the terms of the related Synthetic Security, and (y) the Issuer is the Defaulting Party or sole Affected Party (as such term is defined in the related Synthetic Security) and (z) as a result of the termination of the Synthetic Security, a termination payment is due to the Synthetic Security Counterparty or (B) the Issuer novates a Synthetic Security and a payment is due to the replacement synthetic swap counterparty (such amount, the **"Synthetic Security Termination/Novation Payment (Issuer)"**) the Trustee shall, on behalf of the Issuer, and pursuant to written instruction of the Collateral Manager, subject to the procedures set forth in the Indenture:

(A) withdraw from the Synthetic Security Collateral Account (including, at the Collateral Manager's discretion, by withdrawing the necessary amount from the Investment Agreement) an amount equal to the lesser of (1) the amount credited to the Synthetic Security Collateral Account and (2) the Synthetic Security Termination/Novation Payment (Issuer); and

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(B) If the amount withdrawn under (A) above is less than the Synthetic Security Termination/Novation Payment (Issuer), withdraw from the Principal Collection Account an amount equal to the lesser of (1) the amount credited to the Principal Collection Account and (2) the Synthetic Security Termination/Novation Payment (Issuer) less the amounts withdrawn pursuant to clause (A).

(vi) Payment of amounts due under the Offsetting Transactions. Any payments due to the Offsetting Transaction Counterparty in connection with the Disposition of an Offsetting Transaction will be made from (i) the amount received by the Issuer in respect of the Disposition of the related Synthetic Security (for the avoidance of doubt, no Disposition of Offsetting Transactions may occur unless the Issuer procures a corresponding Disposition of the respective Synthetic Security), (ii) (a) from the Synthetic Security Collateral Account and (b) from Principal Proceeds, provided that after the application of (a) and (b) the Overcollateralization Ratios remain at or above their levels as of the Effective Date and (iii) from Interest Proceeds. If the aggregate of (i), (ii) and (iii) above is less than the amount that would be payable to the Offsetting Transaction Counterparty in connection with the Disposition of an Offsetting Transaction, then such Disposition (together with the Disposition of the corresponding amount of the related Synthetic Security) shall only be effected in respect of a proportion of the relevant Offset Transaction such that the aggregate of (i), (ii) and (iii) is greater than or equal to the amount that would be payable to the Offsetting Transaction Counterparty in connection with such Disposition.

The Trustee, on behalf of the Issuer, shall pay from such proceeds any amounts due to the Synthetic Security Counterparty of the related Synthetic Security (other than with respect to a termination event or event of default where the Synthetic Security Counterparty is the Defaulting Party or Affected Party (as such term is defined in the Synthetic Security)).

Floating Payments Payable by the Issuer. With respect to each Synthetic Security executed substantially in the form as shown in **Schedule H**, **Schedule I**, **Schedule J** or in **Schedule K**, the Issuer shall pay to the Synthetic Security Counterparty on each Floating Rate Payer Payment Date the **"Floating Payment"** applicable to such Synthetic Security as calculated by the Synthetic Security Calculation Agent and confirmed by the Trustee, which shall equal the related Writedown Amount, Principal Shortfall Amount or Interest Shortfall Payment Amount, as applicable.

"Writedown Amount" means, with respect to any Reference Obligation Payment Date, the product of (a) the amount of any Writedown on such date, (b) the Applicable Percentage and (c) the Reference Price.

"Principal Shortfall Amount" which means, with respect to a Failure to Pay Principal, the greater of (i) zero; and (ii) the product of (a) the Expected Principal Amount minus the Actual Principal Amount, (b) the Applicable Percentage and (c) the Reference Price. If the Principal Shortfall Amount would not be greater than the Notional Amount immediately prior to the occurrence of a Failure to Pay Principal, then the Principal Shortfall Amount shall be deemed to be equal to the Notional Amount at such time.

"Interest Shortfall Amount" means, with respect to any Reference Obligation Payment Date, an amount equal to the greater of (a) zero and (b) the product of (i) the Expected Interest Amount minus the

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Actual Interest Amount and (ii) the Applicable Percentage; *provided* that the Interest Shortfall Amount shall be subject to a "Fixed Cap" or other similar provision such that the Interest Shortfall Amount payable with respect to an interest period shall be limited to the Fixed Amount payable by the relevant Synthetic Security Counterparty.

"Expected Interest Amount" means, with respect to any Reference Obligation Payment Date, the amount of current interest that would accrue during the related Reference Obligation Calculation Period calculated using the Reference Obligation Coupon on a Principal/Notional Balance of the Reference Obligation equal to 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. Except as provided 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.

"Actual Interest Amount" means, with respect to any Reference Obligation Payment Date, payment by or on behalf of the Issuer of an amount in respect of interest due under Reference Obligation including, without limitation, any deferred interest, defaulted interest, but excluding payments in respect of prepayment penalties or principal (except that the Actual Interest Amount shall include any payment of principal representing capitalized interest) paid to the holder(s) of the Reference Obligation in respect of the Reference Obligation.

"Reference Obligation Calculation Period" means, with respect to each Reference Obligation Payment Date, a period corresponding to the interest accrual period relating to such Reference Obligation Payment Date pursuant to the Underlying Instruments; *provided, however,* that in the case of the first Reference Obligation Calculation Period, such Reference Obligation Calculation Period shall commence on and include the Effective Date of such Synthetic Security.

"Floating Rate Payer Payment Date" has the meaning specified in the related Synthetic Security, but will generally mean the first Fixed Rate Payer Payment Date falling at least two Business Days after delivery of a notice by the Calculation Agent to the Synthetic Security Counterparty and the Issuer or the Synthetic Security Counterparty to the Issuer that the related Floating Amount is due.

Additional Fixed Amounts Payable by the Synthetic Security Counterparty. With respect to each Synthetic Security executed in the form as shown in **Schedule H**, in the form as shown in **Schedule I**, in the form as shown in **Schedule J** or in the form as shown in **Schedule K**, in addition to the Fixed Amounts, the Synthetic Security Counterparty shall pay to the Issuer "Additional Fixed Amounts" consisting of:

(a) the payment of an Actual Interest Amount that is greater than the Expected Interest Amount multiplied by the Applicable Percentage subject to the Fixed Cap (such reimbursement amount the **"Interest Shortfall Reimbursement Payment Amount"**);

(b) the Writedown Reimbursement Amount specified by the Synthetic Security Calculation Agent in its notice to the parties or the Issuer in its notice to the Synthetic Security Counterparty of the existence of a Writedown Reimbursement (such reimbursement amount, the **"Writedown Reimbursement Payment Amount"**); *provided* that the aggregate of all Writedown Reimbursement Payment Amounts at any time shall not exceed the aggregate of all Floating Amounts paid by the Issuer in respect of Writedowns; and

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(c) the Principal Shortfall Reimbursement Amount specified by the Synthetic Security Calculation Agent in its notice to the parties or the Issuer in its notice to the Synthetic Security Counterparty of the existence of a Principal Shortfall Reimbursement (such reimbursement amount, the **"Principal Shortfall Reimbursement Payment Amount"**); *provided* that the aggregate of all Principal Shortfall Reimbursement Payment Amounts at any time shall not exceed the Aggregate of all Floating Amounts paid by the Issuer in respect of occurrences of Failure to Pay Principal.

"Writedown Reimbursement" means, with respect to any day, the occurrence of either (a) a payment in respect of the Reference Obligation in reduction of any prior Writedowns or (b) (i) an increase in the Outstanding Principal Amount of the Reference Obligation to reflect the reversal of any prior Writedowns or (ii) a decrease in the principal deficiency balance or realized loss amounts (howsoever described in the Underlying Instruments) attributable to the Reference Obligation).

"Writedown Reimbursement Amount" means, with respect to any day the product of (a) the sum of all Writedown Reimbursements on that day (b) the Applicable Percentage and (c) the Reference Price.

"Principal Shortfall Reimbursement Amount" means, with respect to any Reference Obligation Payment Date, the product of (a) the amount of any Principal Shortfall Reimbursement, (b) the Applicable Percentage and (c) the Reference Price.

"Principal Shortfall Reimbursement" means, with respect to any Reference Obligation Payment Date, the payment of an amount in respect of the Reference Obligation in or toward the satisfaction of any deferral of or failure to pay principal arising from one or more prior occurrences of a Failure to Pay Principal.

Credit Events. **"Credit Event"** means, solely with respect to Reference Obligations that are RMBS Securities, with respect to any Reference Obligation, the occurrence of a:

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

(ii) **"Writedown"**, means the occurrence at any time on or after the Effective Date of: (i) (A) a writedown or applied loss (however described in the Underlying Instruments) resulting in a reduction in the Outstanding Principal Amount (other than as a result of a scheduled or unscheduled payment of principal); or (B) the attribution of a principal deficiency or realized loss (howsoever described in the Underlying Instruments) to the Reference Obligation resulting in a reduction of the current interest payable on the Reference Obligation; or (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;

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(iii) **"Distressed Ratings Downgrade"**, which means that the Reference Obligation, on any date of determination:

(a) if publicly rated by Moody's,

(i) is downgraded to "Caa2" or below by Moody's or

(ii) has the rating assigned to it by Moody's withdrawn and, in each case, not reinstated within five (5) Business Days of such downgrade or withdrawal; *provided*, if such Reference Obligation was assigned a public rating of "Baa3" or higher by Moody's immediately prior to the occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "Caa1" by Moody's within three (3) calendar months of such withdrawal; or

(b) if publicly rated by Standard & Poor's,

(i) is downgraded to "CCC" or below by Standard & Poor's or

(ii) has the rating assigned to it by Standard & Poor's withdrawn and, in each case, not reinstated within five (5) Business Days of such downgrade or withdrawal; *provided*, if such Reference Obligation was assigned a public rating of "BBB-" or higher by Standard & Poor's immediately prior to the occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "CCC+" by Standard & Poor's within three (3) calendar months of such withdrawal; or

(c) if publicly rated by Fitch Ratings Inc. (**"Fitch"**),

(i) is downgraded to "CCC" or below by Fitch or

(ii) has the rating assigned to it by Fitch withdrawn and, in each case, not reinstated within five (5) Business Days of such downgrade or withdrawal; *provided*, however, if such Reference Obligation was assigned a public rating of "BBB-" or higher by Fitch immediately prior to the occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "CCC+" by Fitch within three (3) calendar months of such withdrawal.

Downgrade of the Synthetic Security Counterparties. If a Synthetic Security Counterparty or its guarantor fails to maintain certain rating levels described in the Schedule to the ISDA Master Agreement, such Synthetic Security Counterparty may be required to post collateral, obtain a guaranty from a guarantor with the required rating, or assign its rights and obligations under each related Synthetic Security to a replacement synthetic security counterparty satisfying the ratings requirements specified by each of the Rating Agencies for the synthetic security counterparty and, if the Synthetic Security Counterparty does not, within thirty (30) days of such failure (or where the Synthetic Security

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Counterparty fails to maintain certain lower rating levels described in the Schedule to the ISDA Master Agreement, it does not, within 10 days of such failure) take such action, the Issuer will be permitted to terminate each such Synthetic Security.

If and to the extent that the Synthetic Security Counterparty posts collateral to secure its obligations under the related Synthetic Security due to failure to maintain certain rating levels described in the Schedule to the ISDA Master Agreement, the Trustee shall establish a Synthetic Security Issuer Account. The Trustee shall credit to the Synthetic Security Issuer Account all amounts that are required to secure the obligations of the Synthetic Security Counterparty. Except for investment earnings, the Synthetic Security Counterparty shall not have any legal, equitable or beneficial interest in the related Synthetic Security Issuer Account other than in accordance with the Indenture, the applicable Synthetic Security and applicable law.

Governing Law. Each Synthetic Security will state that it will be governed by, and will be construed in accordance with, the laws of the State of New York without regard to any conflicts of laws principle. Each of the Issuer and the Synthetic Security Counterparty will be required to submit to the jurisdiction of the New York courts in connection with each Synthetic Security, and the Issuer is expected to appoint CT Corporation System to accept service of process on its behalf.

Investments in Synthetic Securities present risks in addition to those associated with other types of Underlying Assets. See "Risk Factors—Nature of the Underlying Assets" and "—Synthetic Securities".

Offsetting Transactions

The Issuer may from time to time, subject to compliance with the Collateral Quality Tests, enter into credit default swaps with one or more Offsetting Transaction Counterparties, to the extent required in order to hedge all or part of its credit exposure (determined as set out below) to obligors under Synthetic Securities (each such transaction, as **"Offsetting Transaction"**). In the event that any such Offsetting Transaction is entered into in respect of all or part of a Synthetic Security, such Synthetic Security (or part thereof) will no longer be considered a Synthetic Security (the amount of such Synthetic Security so offset, the **"Offset Transaction"**).

An Offsetting Transaction shall hedge all or part of the Issuer's credit exposure if, in the reasonable judgment of the Collateral Manager acting on behalf of the Issuer, such Offsetting Transaction hedges the Issuer's risk of loss (in whole or in part) with respect to the relevant Synthetic Security and the Offsetting Transaction relates to the same Reference Obligation and provides for all obligations thereunder to have substantially the same characteristics as obligations specified in such Synthetic Security (other than premium payable).

[Each Offsetting Transaction and Offset Transaction will include cross-default provisions providing that, in the case of an Offsetting Transaction, following an event of default or termination event with respect to an Offset Transaction, the related Offsetting Transaction will terminate and that, in the case of an Offset Transaction, following an event of default or termination event with respect to an Offsetting Transaction, the related Offset Transaction will terminate.]

The fixed amounts payable with respect to an Offsetting Transaction must be less than or equal to the fixed amounts payable with respect to the related Synthetic Security and in certain circumstances the Issuer may be required to make an upfront payment to the Offsetting Transaction Counterparty.

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An Offsetting Transaction may only hedge a component in the related Offset Transaction that prior to such offset was a Synthetic Security. For the avoidance of doubt hedging an Offset Transaction with additional Offsetting Transactions is not allowed.

An Offsetting Transaction may only be Disposed if the long component of the related Offset Transaction is simultaneously Disposed. An Offsetting Transaction must be immediately Disposed if the related Offset Transaction is Disposed.

Any payments received by the Issuer under an Offsetting Transaction that is a component of an Offset Transaction will be netted against payments paid by the Issuer under the opposite component.

The acquisition of any Offsetting Transaction will be subject to the Rating Agency Condition except where such Offsetting Transaction is a Form Approved Short Synthetic Confirmation. The fixed amount payable under any Offsetting Transaction acquired by the Issuer will be paid on an ongoing basis from Interest Proceeds; provided that the acquisition of such Offsetting Transaction will be subject to compliance with the Weighted Average Spread Test or, if the Weighted Average Spread Test is not in compliance prior to such acquisition, would result in the Weighted Average Spread Test being maintained or improved, if recalculated after giving effect to acquisition of such Offsetting Transaction; and provided further that such fixed amounts may only be paid out of Interest Proceeds.

Upon the occurrence of a Credit Event under an Offsetting Synthetic Transaction, the Physical Settlement Amount or any cash settlement amount receivable by the Issuer will be paid into the Principal Collection Account, except to the extent that such amounts are offset against any amount payable by the Issuer.

Notwithstanding anything to the contrary herein:

(1) Offset Transactions and the related Offsetting Transactions will not be considered Assets for purposes of the Collateral Quality Tests other than the Weighted Average Spread Test; and

(2) for the purposes of the Eligibility Criteria, neither the Offset Transactions nor the Offsetting Transactions will be considered.

The Collateral Quality Tests

The Collateral Quality Tests will be used to establish that the characteristics of the Issuer's portfolio on the Closing Date satisfy certain threshold levels and, following the Closing Date, to determine whether trading of the Underlying Assets is permitted. The **"Collateral Quality Tests"** are the Standard & Poor's Minimum Weighted Average Recovery Rate Test, the Moody's Asset Correlation Test, the Moody's Minimum Weighted Average Recovery Rate Test, the Moody's Weighted Average Rating Factor Test, the Weighted Average Coupon Test, the Weighted Average Spread Test and the Weighted Average Life Test described below.

Measurement of the degree of compliance with the Collateral Quality Tests will be required on the Closing Date and on each Measurement Date. For purposes of the Weighted Average Coupon Test and Weighted Average Spread Test, a Synthetic Security will be included as an Underlying Asset having the characteristics of the Synthetic Security and not of the related Reference Obligation. A failure by the Issuer to satisfy a Collateral Quality Test will not result in an Event of Default under the Indenture.

Ratings of Underlying Assets. The **"Standard & Poor's Rating"** of any Underlying Asset will be determined as described on **Schedule C** hereto. The **"Moody's Rating"** of any Underlying Asset will be determined as described on **Schedule D** hereto.

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Standard & Poor's Minimum Weighted Average Recovery Rate Test. The **"Standard & Poor's Minimum Weighted Average Recovery Rate Test"** will be satisfied on the Closing Date or any Measurement Date if the Standard & Poor's Weighted Average Recovery Rate is greater than or equal to

(a) with respect to the Class A-1 Notes, []%,

(b) with respect to the Class A-2 Notes, []%,

(c) with respect to the Class B Notes, []%,

(d) with respect to the Class C Notes, []%,

(e) with respect to the Class D Notes, []% and

(f) with respect to the Class E Notes, []%.

The **"Standard & Poor's Weighted Average Recovery Rate"** is the number obtained by *summing* the products obtained by *multiplying* the Principal/Notional Balance of each Underlying Asset by its Standard & Poor's Applicable Recovery Rate, *dividing* such sum by the Aggregate Principal/Notional Balance of all such Underlying Assets, *multiplying* the result by 100 and rounding up to the first decimal place. The "Standard & Poor's Applicable Recovery Rate" means, with respect to any Underlying Asset, an amount equal to the percentage for such Underlying Asset (which shall mean with respect to a Synthetic Security, the related Reference Obligation) set forth in the Standard & Poor's Recovery Matrix attached as **Schedule E** in (a) the applicable table, (b) the row in such table opposite the Standard & Poor's Rating of such Underlying Asset as of the date of issuance of such Underlying Asset and (c)(i) for purposes of determining the Standard & Poor's 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, the column in such table below the current rating of the most senior Class of Notes outstanding.

Standard & Poor's CDO Evaluator. The **"Standard & Poor's CDO Evaluator"** means the dynamic, analytical computer model developed by Standard & Poor's and used to estimate default risk of Underlying Assets and provided to the Collateral Manager and the Trustee on or before the Closing Date, as it may be modified by Standard & Poor's from time to time and provided to the Collateral Manager and the Trustee following the Closing Date.

Moody's Asset Correlation Test. The **"Moody's Asset Correlation Test"** means a test which will be satisfied as of the Closing Date or any Measurement Date if the Moody's Correlation Factor is equal to or less than []%; *provided* that a single-obligation Synthetic Security will be included as an Asset-Backed Security having the characteristics of the related Reference Obligation (and the issuer thereof will be deemed to be the related Reference Obligor and not the Synthetic Security Counterparty). For the purpose of this test, the number of assets is [].

"Moody's Correlation Factor" means [].

Moody's Minimum Weighted Average Recovery Rate Test. The **"Moody's Minimum Weighted Average Recovery Rate Test"** will be satisfied as of the Closing Date or any Measurement Date if the Moody's Weighted Average Recovery Rate is greater than or equal to []%.

The **"Moody's Weighted Average Recovery Rate"** is the number obtained by *summing* the products obtained by *multiplying* the Principal/Notional Balance of each Underlying Asset (excluding any Defaulted Asset) by its applicable recovery rate (determined for purposes of this definition in accordance

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with **Schedule F**), *dividing* such sum by the Aggregate Principal/Notional Balance of all such Underlying Assets, *multiplying* the result by 100 and rounding up to the first decimal place.

Moody's Weighted Average Rating Factor Test. The **"Moody's Weighted Average Rating Factor Test"** will be satisfied as of the Closing Date or any Measurement Date if the Moody's Weighted Average Rating Factor of the Underlying Assets is equal to a numerical value of not more than [].

The **"Moody's Weighted Average Rating Factor"** is the number determined by *dividing:*

(a) the summation of the series of products obtained for any Underlying Asset that is not a Defaulted Asset, by *multiplying* (i) the Principal/Notional Balance of each such Underlying Asset by (ii) its respective Moody's Rating Factor, by

(b) the sum of the Aggregate Principal/Notional Balance of all Underlying Assets that are not Defaulted Securities.

Weighted Average Coupon Test. The **"Weighted Average Coupon Test"** will be satisfied on the Closing Date or any Measurement Date if the Weighted Average Coupon is greater than or equal to the percentage specified in the table below with respect to such date.

Date	Test Percentage
[]	[]
[]	[]
[]	[]
[]	[]
[]	[]

The **"Weighted Average Coupon"** is the number (rounded up to the next 0.01%) obtained by (i) summing the products obtained by *multiplying* (A) the current interest rate on each Underlying Asset that is a Fixed Rate Security (excluding all Defaulted Securities, Written Down Securities and Deferred Interest PIK Bonds) by (B) the Principal/Notional Balance of each such Underlying Asset and (ii) *dividing* such sum by the Aggregate Principal/Notional Balance of all Underlying Assets that are Fixed Rate Securities (excluding all Defaulted Securities, Written Down Securities and Deferred Interest PIK Bonds).

Weighted Average Spread Test. The **"Weighted Average Spread Test"** will be satisfied as of the Closing Date or any Measurement Date if the Weighted Average Spread is greater than or equal to the percentage specified in the table below with respect to such date.

Date	Test Percentage
[]	[]
[]	[]
[]	[]

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[]	[]
[]	[]

The **"Weighted Average Spread"** is the number (rounded up to the next 0.01%) obtained by (a) summing the products obtained by *multiplying* (i) the spread above the floating rate index at which interest accrues on each Underlying Asset or Offset Transaction (in an amount equal to the difference, if any, between the spread of the long component of such Offset Transaction and that of the related Offsetting Transaction) that is a Floating Rate Security or the Fixed Amount applicable to a Synthetic Security (in each case, other than a Defaulted Asset, Written Down Security or Deferred Interest PIK Bond) as of such date by (ii) the Principal/Notional Balance of such Underlying Asset or Offset Transaction as of such date, and (b) *dividing* such sum by the Aggregate Principal/Notional Balance of all Underlying Assets that are Floating Rate Securities (excluding all Defaulted Securities, Written Down Securities and Deferred Interest PIK Bonds).

The **"Weighted Average Life Test"** will be satisfied as of the Closing Date or any Measurement Date during any period set forth below if the Weighted Average Life of all Underlying Assets as of such Measurement Date is less than or equal to the number of years set forth in the table below.

On any Measurement Date during the Reinvestment Period	[] years
Thereafter	[] years

"Weighted Average Life" means, on any Measurement Date with respect to any Underlying Asset, the number obtained by (i) summing the products obtained by multiplying (a) the Average Life at such time of each Underlying Asset (excluding Defaulted Assets) by (b) the Principal/Notional Balance of such Underlying Assets and (ii) dividing such sum by the Aggregate Principal/Notional Balance at such time of all Underlying Assets. For the purpose of this definition, with respect to the Synthetic Securities, calculations will be made with respect to related Reference Obligation.

"Average Life" means on any Measurement Date with respect to any Underlying Asset (provided that, with respect to any Synthetic Security, such determination will be made with respect to the related Reference Obligation), 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 Underlying Asset (other than a Defaulted Asset) (assuming that (A) no collateral defaults or is sold, (B) prepayment of any Underlying Asset during any month occurs (a) at the rate of prepayment assumed at the time of issuance of such Underlying Asset or (b) at the prospectus pricing curve or other similar rate as determined by the Collateral Manager in its reasonable business judgment and (C) any clean-up call, auction call or similar redemption of the Underlying Asset occurs in accordance with its terms), and (b) the respective amounts of principal of such distributions by (ii) the sum of all successive distributions of principal on such Underlying Asset (other than a Defaulted Asset).

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Closing Date Portfolio

The portfolio of Underlying Assets acquired (or committed to be acquired for settlement in accordance with customary settlement procedures in the relevant markets) by the Issuer on or prior to the Closing Date has the following characteristics (as of [] 2007):

Aggregate Principal/Notional Balance	(1)	U.S.$[ ]
Fixed Rate Securities	(2)	[ ]% of the Net Outstanding Underlying Asset Balance
Floating Rate Securities	(3)	[ ]% of the Net Outstanding Underlying Asset Balance
Top Issue Concentration	(4)	[]
Top Servicer Concentration	(5)	[]
Standard & Poor's Weighted Average Recovery Rate	(6)	(a) with respect to the Class A-1 Notes, [ ]% (b) with respect to the Class A-2 Notes, [ ]% (c) with respect to the Class B Notes, [ ]% (d) with respect to the Class C Notes, [ ]% (e) with respect to the Class D Notes, [ ]% (f) with respect to the Class E Notes, [ ]%
Weighted Average Coupon	(7)	[ ]%
Weighted Average Spread	(8)	[ ]%
Weighted Average Life	(9)	[ ]
Moody's Correlation Factor	(10)	[ ]%
Moody's Weighted Average Recovery Rate	(11)	[ ]%
Moody's Weighted Average Rating Factor	(12)	[ ]

The Issuer may not acquire any Underlying Asset unless such acquisition is made on an "arm's-length basis" for fair market value.

Disposition

Underlying Assets may be retired prior to their respective final maturities due to, among other things, the existence and frequency of exercise of any optional or mandatory redemption features of such Underlying Assets. In addition, pursuant to the Indenture and so long as no Event of Default has occurred and is continuing and subject to the conditions set forth in paragraphs (1) through (5) in the section "*Disposition of Underlying Assets*" below, the Collateral Manager may Dispose of any (i) Defaulted Asset,

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(ii) Equity Security, (iii) Credit-Risk Asset, (iv) Credit Improved Asset, (v) other Underlying Assets Disposed of pursuant to paragraph (4) below and (vi) any Underlying Asset that is subject to withholding as described below.

"Disposition" means one of the following:

(i) in the case of any Asset-Backed Security, Equity Security, Defaulted Asset, Written Down Security or Eligible Investment, the sale thereof by the Collateral Manager, acting on behalf of the Issuer;

(ii) in the case of any Synthetic Security, the termination or novation thereof by agreement between the parties thereto; or

(iii) in respect of any Underlying Asset, the entry by the Issuer into an Offsetting Transaction in respect of such Underlying Asset.

References to "Dispose" and "Disposed" will be construed accordingly.

"Disposition Proceeds" means:

(i) in the case of any Asset-Backed Security, Equity Security, Eligible Investment, Defaulted Asset or Written Down Security, the net proceeds of sale by agreement between the parties thereto, the amounts received by the Issuer from the applicable counterparty, excluding any amounts included in such proceeds that represent accrued and unpaid interest save to the extent that such amounts are designated as Principal Proceeds by the Collateral Manager, acting on behalf of the Issuer, in connection with such sale; or

(ii) in the case of any Synthetic Security that is terminated or novated by agreement between the parties thereto:

(a) solely for the purposes of applying paragraphs (1) through (5) in the section "Disposition of Assets" below, an amount equal to the Principal/Notional Balance thereof, *plus* or *minus* any mark-to-market amounts payable or received by the Issuer upon such termination or novation; and

(b) in all other cases, any mark-to-market amounts payable or received by the Issuer upon such termination or novation.

Disposition of Underlying Assets

Defaulted Assets and Equity Securities

(1) Subject to the provisions of the immediately following sentence, the Collateral Manager on behalf of the Issuer, may direct the Trustee in writing to Dispose of any Underlying Asset that the Collateral Manager, acting on behalf of the Issuer, determines to be (and which the Collateral Manager certifies in writing to the Trustee that it has determined to be) a Defaulted Asset or an Equity Security; it being agreed in the Indenture, however, that notwithstanding any of the foregoing, (A) the Issuer will be obligated to complete the Disposition of any Defaulted Asset (i) within one year of the date on which it was so determined to be a Defaulted Asset, (ii) subject to the satisfaction of the Rating Condition with respect to Moody's only, within two years of the date on which it was determined to be a Defaulted Asset or (iii) if applicable, within two years of such later date on which

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such Defaulted Asset may first be Disposed of in accordance with its terms or under applicable law; (B) the Issuer will be obligated to complete the Disposition of any Equity Security received in exchange for a Defaulted Asset (i) within one year of the date on which the related Underlying Asset was so determined to be a Defaulted Asset or (ii) if applicable, within one year of such later date on which such Equity Security may first be Disposed of in accordance with its terms or under applicable law; and (C) the Issuer will be obligated to complete the Disposition of any other kind of Equity Security (i) within five Business Days of the Issuer's receipt thereof or (ii) if applicable, within five Business Days of any later date on which such Equity Security may first be Disposed of in accordance with its terms or under applicable law.

Credit-Risk Assets

(2) The Collateral Manager, on behalf of the Issuer, may direct the Trustee in writing to Dispose of any Underlying Asset that the Collateral Manager, acting on behalf of the Issuer, determines to be (and which the Collateral Manager certifies in writing to the Trustee that it has determined to be) a Credit-Risk Asset and, if applicable, to acquire additional Underlying Assets in accordance with clause (B) below. The Collateral Manager may not direct the Trustee to Dispose of any Underlying Asset that it determines to be a Credit-Risk Asset unless, in connection with the Disposition of such Credit-Risk Asset, the Collateral Manager will certify in writing to the Trustee that:

(A) at the direction of the Collateral Manager, the Disposition Proceeds arising from the Disposition of such Credit-Risk Asset shall be transferred to the Principal Collection Account to be applied in accordance with the Priority of Payments; *provided that* such Disposition Proceeds may not be reinvested, or

(B) the Collateral Manager believes that the Issuer will be able to reinvest the Disposition Proceeds arising from the Disposition of such Credit-Risk Asset, within [180] days after such Credit-Risk Asset is Disposed of, in one or more additional Asset-Backed Securities or Synthetic Securities having an Aggregate Principal/Notional Balance that, together with accrued interest thereon, is at least equal to the Disposition Proceeds arising from the Disposition of such Credit-Risk Asset being Disposed of and the Collateral Manager believes that after giving effect to such Disposition and the subsequent acquisition, the level of each of the Collateral Quality Tests and Eligibility Criteria is maintained or improved as compared to the test levels prior to such Disposition and subsequent acquisition; *provided however* that after the Reinvestment Period, the Issuer may not Dispose of a Credit-Risk Asset and acquire one or more additional Underlying Assets pursuant to this paragraph unless, *additionally*, (i) the Collateral Quality Tests are in compliance, (ii) the Underlying Asset proposed to be acquired shall have a Moody's Rating and a Standard & Poor's Rating at least equal to the Moody's Rating and the Standard & Poor's Rating respectively of the Credit-Risk Asset to be Disposed, (iii) the weighted average life of the Underlying Asset(s) proposed to be acquired following such Disposition shall be no more than two years greater than the weighted average life of the Credit-Risk Asset to be Disposed and (iv)(A) all Coverage Tests are satisfied prior to

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such Disposition, (B) the Collateral Manager believes that, after giving effect to such Disposition and the subsequent acquisition described in this paragraph all Coverage Tests will be satisfied and the level of each Coverage Test will be at least equal to its level prior to such Disposition and (C) the level of the Class D Overcollateralization Test is at least equal to [].

Credit-Improved Assets

(3) Credit-Improved Assets. The Collateral Manager, on behalf of the Issuer, may direct the Trustee in writing to Dispose of any Underlying Asset that the Collateral Manager, acting on behalf of the Issuer, determines to be (and which the Collateral Manager certifies in writing to the Trustee that it has determined to be) a Credit Improved Asset and, if applicable, to acquire additional Underlying Assets in accordance with clause (B) below. The Collateral Manager may not direct the Trustee to Dispose of any Underlying Asset that it determines to be a Credit-Improved Asset unless, in connection with the Disposition of such Credit-Improved Asset, the Collateral Manager will certify in writing to the Trustee that:

(A) at the direction of the Collateral Manager, the Disposition Proceeds arising from the Disposition of such Credit-Improved Asset shall be transferred to the Principal Collection Account to be applied in accordance with the Priority of Payments; *provided that* (i) such Disposition Proceeds may not be reinvested and (ii) such Disposition Proceeds must be at least equal to the par value of the Credit-Improved Asset Disposed, or

(B) the Collateral Manager believes that the Issuer will be able to reinvest the Disposition Proceeds arising from the Disposition of such Credit-Improved Asset, within [180] days after such Credit-Improved Asset is Disposed of, in one or more additional Asset-Backed Securities or Synthetic Securities having an Aggregate Principal/Notional Balance at least equal to the Aggregate Principal/Notional Balance of the Credit-Improved Asset to be Disposed, and the Collateral Manager believes that after giving effect to such Disposition and the subsequent acquisition, the level of each of the Collateral Quality Tests and Eligibility Criteria is maintained or improved as compared to the test levels prior to such Disposition and subsequent acquisition; *provided however* that after the Reinvestment Period, the Issuer may not Dispose of a Credit-Improved Asset and acquire another Underlying Asset pursuant to this paragraph unless, *additionally*, (I) the Collateral Quality Tests are in compliance, (ii) the Underlying Asset proposed to be acquired shall have a Moody's Rating and a Standard & Poor's Rating at least equal to the Moody's Rating and the Standard & Poor's Rating, respectively, of the Credit-Improved Asset to be Disposed, (iii) the weighted average life of the Underlying Asset(s) proposed to be acquired following such Disposition shall be no more than two years greater than the weighted average life of the Credit-Improved Asset to be Disposed and (iv)(A) all Coverage Tests are satisfied prior to such Disposition, (B) the Collateral Manager believes that, after giving effect to such Disposition and the

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subsequent acquisition described in this paragraph all Coverage Tests will be satisfied and the level of each Coverage Test will be at least equal to its level prior to such Disposition and (C) the level of the Class D Overcollateralization Test is at least equal to [].

Discretionary Trading

(4) At any time during the Reinvestment Period, the Collateral Manager, on behalf of the Issuer, may direct the Trustee in writing to Dispose of (and acquire if applicable), and the Trustee shall Dispose of (and acquire, if applicable) in the manner so directed by the Collateral Manager, acting on behalf of the Issuer, in writing, any Underlying Asset if, in connection with the Disposition of such Underlying Asset and the acquisition of another Underlying Asset, as applicable, the Collateral Manager shall certify in writing to the Trustee that:

(i) the Collateral Manager believes in good faith that Disposition Proceeds relating to such Underlying Asset can be reinvested within [180] days after the Disposition of such Underlying Asset in one or more additional Underlying Assets such that the Aggregate Principal/Notional Balance of such additional Underlying Assets is greater than or equal to the Principal/Notional Balance of the Underlying Asset to be so Disposed,

(ii) the Aggregate Principal/Notional Balance of all Underlying Assets Disposed of pursuant to this paragraph during any calendar year (including the period from the Closing Date to the end of calendar year 2007), does not exceed [20]% of the Net Outstanding Asset Balance as of the first day of such period (excluding, for the purposes of such calculation, the Disposition of any Credit-Risk Assets, Credit-Improved Assets, Defaulted Assets, Equity Securities and Withholding Securities and any Underlying Asset Disposed by the entry of the Issuer into an Offsetting Transaction with respect to such Underlying Asset),

(iii) the Collateral Manager believes that after giving effect to such Disposition and the subsequent acquisition, the level of each of the Collateral Quality Tests and Eligibility Criteria is maintained or improved as compared to the test levels prior to such Disposition and subsequent acquisition;

(iv) and Moody's has not reduced the long term rating of any Class of Notes below the long term rating in effect on the Closing Date by one or more major rating categories.

Underlying Assets Subject to Withholding

(5) Notwithstanding any of the limitations prescribed by the preceding paragraphs, if no Event of Default has occurred and is continuing, the Collateral Manager, on behalf of the Issuer, may, at any time, direct the Trustee in writing to Dispose of any Underlying Asset (regardless of whether such Underlying Asset is or can be characterized as, or

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determined to be, a Defaulted Asset, an Equity Security, a Credit-Risk Asset or a Credit Improved Asset) if the Collateral Manager shall certify in writing to the Trustee that, based upon an opinion of counsel addressed to the Issuer and the Collateral Manager, the Collateral Manager, acting on behalf of the Issuer, has determined, that such Underlying Asset is, or may become, subject to withholding or other similar taxes.

In addition, during and after the Reinvestment Period, the Issuer, at the direction of the Collateral Manager, may also enter into Offsetting Transactions; *provided that* each Offsetting Transaction will be treated as a Disposition of the related Underlying Asset, meaning that Offsetting Transactions will be deemed to be discretionary and not in connection with the Disposition of Defaulted Assets, Equity Securities, Credit-Risk Assets, Credit-Improved Assets and Withholding Securities shall only occur during the Reinvestment Period.

Any Disposition of an Underlying Asset will be conducted on an "arm's length basis" for fair market value and in accordance with the requirements of the Management Agreement, and, if effected with the Issuer, the Trustee, a Designated Party or any Affiliate of any of the foregoing, will be effected in a secondary market transaction on terms at least as favorable to the Noteholders as would be the case if such person were not so affiliated; *provided* that, after the Closing Date, the Collateral Manager on behalf of the Issuer shall not direct the Trustee to acquire directly any Asset-Backed Security or a Synthetic Security for inclusion in the Collateral from any account or portfolio for which the Collateral Manager serves as investment advisor or direct the Trustee to Dispose of directly any Underlying Asset to any account or portfolio for which the Collateral Manager serves as investment advisor unless such acquisition or Disposition complies with all material requirements of any applicable laws. The Trustee will have no responsibility to oversee or ensure compliance with the above conditions by the other parties. Any Disposition Proceeds arising out of the Disposition of an Asset-Backed Security that are deposited in the Disposition Proceeds Account to be reinvested in other Underlying Assets within [180] days following such Disposition. Following such [180] day period, if such Disposition Proceeds have not been reinvested in any substitute Underlying Asset and remain in the Disposition Proceeds Account, such Disposition Proceeds shall be deposited in the Principal Collection Account and applied in accordance with the Priority of Payments.

During the Reinvestment Period, Principal Proceeds may be reinvested in additional Asset-Backed Securities or additional Synthetic Securities, or used to purchase Eligible Investments, in each case in accordance with the reinvestment criteria set forth under "*—Eligibility Criteria*".

In addition, during the Reinvestment Period, the Collateral Manager may direct the Trustee to apply, by transferring such amount or portion thereof from the Synthetic Collateral Account to the Principal Collection Subaccount, on any Distribution Date to pay the amounts set forth in clauses (1) through (3) under the Principal Proceeds Priority of Payments, to the extent such amounts are not paid with Principal Proceeds listed in clauses (1) through (11) and (14) of the definition thereof and/or on any date as directed by the Issuer to acquire additional Asset-Backed Securities or additional Synthetic Securities, in each case, in accordance with the reinvestment criteria set forth under "*The Accounts—Synthetic Collateral Accounts*" (unless, at the sole and absolute discretion of the Collateral Manager, such amount is to be treated as Principal Proceeds and applied in accordance with the Priority of Payments for Principal Proceeds).

Certain Definitions

"**Average Life**" means on any Measurement Date on or after the Closing Date with respect to any Underlying Asset (*provided*, that with respect to any Synthetic Security, such determination will be made with respect to the related Reference Obligation), the quotient obtained by dividing (i) the sum of the

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products of (a) the number of years (rounded to the nearest one tenth thereof) from such Measurement Date to the respective dates of each successive scheduled distribution of principal of such Underlying Asset (other than a Defaulted Asset or Deferred Interest PIK Bond) (assuming that (A) no collateral defaults or is sold except those that have already defaulted or been sold, (B) prepayment of any Underlying Asset during any month occurs (x) with respect to an Underlying Asset issued no more than six months prior to such Measurement Date, at the rate of prepayment assumed at the time of issuance of such Underlying Asset and (y) with respect to an Underlying Asset issued more than six months prior to such Measurement Date, at the average rate of prepayment observed over the six months immediately preceding such Measurement Date based on available transaction reporting data (and if such data is unavailable, at the assumed constant prepayment rate or prepayment curve set out in the offering document for such Underlying Asset, as determined by the Collateral Manager in its reasonable business judgment), (C) any clean up call, auction call or similar redemption (but not optional redemption) of the Underlying Asset occurs in accordance with the terms of the relevant Underlying Asset and (D) no optional redemption occurs), and (b) the respective amounts of principal of such scheduled distributions by (ii) the sum of all successive scheduled distributions of principal on such Underlying Asset (other than a Defaulted Asset or Deferred Interest PIK Bond).

"Credit-Improved Asset" means any Asset-Backed Security or Synthetic Security (in which case such determination will be made with respect to the related Reference Obligation) (excluding in each case the long component of any Offset Transaction) that is in compliance with at least one of the following criteria (the **"Credit-Improved Criteria"**):

(a) so long as the long term ratings of the Class A-1 Notes, Class A-2 Notes or the Class B Notes have not been downgraded by one or more rating sub-categories by Moody's and so long as the long term ratings of the Class C Notes, the Class D Notes or the Class E Notes have not been downgraded by two or more rating sub-categories by Moody's (and such ratings have not been restored), the Collateral Manager, acting on behalf of the Issuer, has determined in a commercially reasonable manner (which determination may not be called into question as a result of subsequent events) that: (i) the Issuer of such Asset-Backed Security or the issuer of the Reference Obligation related to such Synthetic Security, as applicable, in the commercially reasonable judgment of the Collateral Manager, acting on behalf of the Issuer, has shown improved financial results; (ii) the transferor, originator, obligor of or insurer of such Asset-Backed Security or of the Reference Obligation related to such Synthetic Security, as applicable, since the date on which such Asset-Backed Security or Synthetic Security was purchased or entered into, as applicable, by the Issuer has raised significant equity capital or has raised other capital that has improved the liquidity or credit standing of such transferor, originator, obligor or insurer; (iii) in the case of an Asset-Backed Security, there has occurred a significant improvement in the underlying pool of assets or an increase in the level of subordination; or (iv) such Asset-Backed Security or the Reference Obligation related to such Synthetic Security, as applicable, has decreased its spread over the interest rate on the applicable U.S. Treasury Benchmark by an amount exceeding [0.50]% for fixed rate assets or by an amount exceeding [0.25]% over the relevant rate index for floating rate assets or has increased in price to [102]% or more of its original purchase price paid by the Issuer due primarily to credit related reasons as determined by the Collateral Manager, acting on behalf of the Issuer, in each case, since it was acquired by the Issuer; and

(b) (i) the Collateral Manager, acting on behalf of the Issuer, believes, in the Collateral Manager's commercially reasonable judgement (which belief may not be called into question as a result of subsequent events) that the Underlying Asset or such related Reference Obligation, as applicable, has substantially improved in credit quality and (ii) such Underlying Asset or such related Reference Obligation, as applicable, has been upgraded or put on a watch list for possible upgrade by one or more rating sub-categories by one or more Rating Agencies since the date on which it was acquired or entered

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into by the Issuer; it being agreed in the Indenture that only clause (2) of the definition of "Credit Improved Criteria" will apply if the long term ratings of Class A- Notes, Class A-2 Notes or the Class B Notes have been downgraded by one or more rating sub-categories by Moody's or the long term rating of the Class C Notes, the Class D Notes or the Class E Notes have been downgraded by two or more rating sub categories by Moody's.

"Credit-Risk Asset" means any Underlying Asset with respect to which (a) during any period which is not a Restricted Trading Period, its rating has been downgraded, qualified or withdrawn by Standard & Poor's, Moody's or Fitch or has been put on "negative credit watch" or similar status for possible downgrading, qualification or withdrawal from the ratings that were in place as of the date the Issuer purchased such Underlying Asset or if (i) in the reasonable business judgment of the Collateral Manager (which judgment shall not be called into question as a result of subsequent events), has a significant risk of declining in credit quality or, over time, becoming a Defaulted Asset or (ii) it is deferring interest or is a Written Down Security; or (b) during any period which is a Restricted Trading Period, (i) its rating has been downgraded, qualified or withdrawn by Standard & Poor's, Moody's or Fitch or has been put on "negative credit watch" or similar status for possible downgrading, qualification or withdrawal from the ratings that were in place as of the date the Issuer purchased such Underlying Asset, (ii) has experienced an increase in credit spread over the applicable U.S. Treasury Benchmark, the applicable swap benchmark or the applicable LIBOR by (x) [ ]% or more if the original credit spread (as of the date on which such Underlying Asset was first included in the portfolio) was greater than [1.50]% or (y) [0.20]% if the original credit spread (as of the date on which such Underlying Asset was first included in the portfolio) was less than or equal to [1.50]%, or (iii) it is deferring interest or is a Written Down Security.

"Equity Security" means any equity security which is acquired by the Issuer as a result of the exercise or conversion of an Underlying Asset, in conjunction with the purchase of an Underlying Asset or in exchange for a Defaulted Asset and which does not entitle the holder thereof to receive periodic payments of interest and one or more installments of principal.

"Initial Rating" means (i) with respect to the Class A-1 Notes and the Class A-2 Notes, "Aaa" by Moody's and "AAA" by Standard & Poor's, (ii) with respect to the Class B Notes, "Aa2" by Moody's and "AA" by Standard & Poor's, (iii) with respect to the Class C Notes, "A2" by Moody's and "A" by Standard & Poor's; (iv) with respect to the Class D Notes, "Baa2" by Moody's and "BBB" by Standard & Poor's, and (v) with respect to the Class E Notes, "Ba1" by Moody's and "BB+" by Standard & Poor's.

"Investment Grade" means a security with a Moody's Rating of at least "Baa3" by Moody's and a Standard & Poor's Rating of at least "BBB-".

"Restricted Trading Period" means each day during which (a) the Moody's rating of the Class A Notes or Class B Notes is one or more subcategories below its Initial Rating, or (b) the Moody's rating of the Class C Notes, the Class D Notes or the Class E Notes is two or more sub-categories below its Initial Rating; unless the holders of a majority in aggregate outstanding principal amount of the Controlling Class has directed the Issuer to waive the Restricted Trading Period (which waiver may be rescinded by the Controlling Class at any time that such rating requirement is not satisfied).

An Underlying Asset will be a **"Withholding Security"** if the related trustee or paying agent informs the Issuer, Trustee or Collateral Manager that it intends to withhold, or actually does withhold from payment on such Underlying Asset, amounts in respect of withholding taxes.

"writing" or **"written"** shall include electronic mail.

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Notwithstanding anything to the contrary set forth in this section "—Disposition of Underlying Assets," the Issuer will have the right to effect any transaction that has been consented to by holders of Notes evidencing 100% of the aggregate outstanding principal amount of each Class of Notes and by each Preference Shareholder and of which each Rating Agency has been notified.

Eligibility Criteria

During the Reinvestment Period, the Issuer may Dispose of and acquire additional Underlying Assets; *provided* that, after giving effect to such investment, (i) each of the Collateral Quality Tests is satisfied or, if a Collateral Quality Test is not satisfied, the degree of compliance with such Collateral Quality Test would be maintained or improved, (ii) with respect to the acquisition of any Synthetic Security, the Synthetic Security Collateralization Conditions are satisfied, and (iii) the criteria set forth below (the **"Eligibility Criteria"**) are complied with or, if the Eligibility Criteria will not be complied with, the degree of compliance with the Eligibility Criteria will be maintained or improved. Unless otherwise stated in this section or unless the context clearly otherwise requires, in respect of the Synthetic Securities, (x) any rating criteria and any criteria relating to its status as a "Specified Type" described in this section in respect of such Synthetic Securities will be deemed to relate to the related Reference Obligations, and any quantitative criteria and limits so described will be deemed to apply to the Principal/Notional Balance of the relevant Synthetic Securities and (y) all references to "rated" or "rating" by Standard & Poor's or Fitch in this section, unless otherwise specified or unless the context otherwise requires, shall refer to the long-term, unsecured debt rating assigned by Standard & Poor's or Fitch, as applicable.

With respect to any acquisitions or Disposition of multiple Underlying Assets, that are effected either contemporaneously or no later than [30] days from each other in accordance with the provisions described herein, the Collateral Manager may, in its sole discretion, direct that two or more of such acquisitions or Dispositions of multiple Underlying Assets be treated as a **"Combined Trade"** and, following such designation by the Collateral Manager, compliance with the Collateral Quality Tests and Eligibility Criteria will be measured by determining the aggregate effect of such Combined Trade on the Issuer's level of compliance with the applicable Collateral Quality Tests and Eligibility Criteria rather than considering the effect of each acquisition or Disposition of the related Underlying Assets individually.

The Issuer may also, at the direction of the Collateral Manager, enter into a trading plan (a) pursuant to which the Collateral Manager believes all trades contemplated thereby will be entered into within [20] Business Days, (b) specifying certain (i) amounts received or expected to be received as Principal Proceeds in connection with a Trading Plan, (ii) Underlying Assets related to such Principal Proceeds and (iii) Underlying Assets acquired or intended to be acquired as a result of such Trading Plan, and (c) for which the Collateral Manager believes such plan can be executed according to its terms. Any trading plan satisfying the requirements of clauses (a)-(c), a **"Trading Plan"**. The time period for such Trading Plan will be measured from the earliest trade date to the latest trade date of any such amounts. With respect to any series of trades in which the Issuer commits to purchase, sell or purchase and sell multiple Underlying Assets pursuant to a Trading Plan, compliance with the Eligibility Criteria and the Collateral Quality Tests 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 Eligibility Criteria and the Collateral Quality Tests rather than considering the effect of each purchase and sale of such Underlying Assets individually. The Issuer (or the Collateral Manager on its behalf) may enter into a Trading Plan only if (1) there are no other Trading Plans being implemented at such time and that the Collateral Quality Tests and Eligibility Criteria with respect to all previously implemented Trading Plans were in compliance as at the scheduled completion date of such Trading Plans, (2) as evidenced by an officer's certificate of the Collateral Manager, acting on behalf of the Issuer, delivered to the Trustee on or prior to the earliest event specified in the related Trading Plan, the Eligibility Criteria and the Collateral

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Quality Tests are expected to be in compliance as of the scheduled completion date of the related Trading Plan, (3) the Aggregate Principal/Notional Balance of all Underlying Assets that are to be Disposed of pursuant to such Trading Plan may not exceed [5]% of the Portfolio Balance (each measured as of the earliest trade date) and (4) Standard & Poor's has received a prior written notice of such Trading Plan from the Collateral Manager, acting on behalf of the Issuer. If at any time any Trading Plan that was previously implemented resulted in the deterioration in the Issuer's level of compliance with any of the Eligibility Criteria and the Collateral Quality Tests, other than due to (x) a failure of the Synthetic Security Counterparty or issuer to comply with any of its payment or delivery obligations to the Issuer or any other default by such counterparty or obligor/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, notice will be provided to Standard & Poor's and the Issuer will be prohibited from entering into any additional Trading Plans 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, acting on behalf of the Issuer, may only specify one Trading Plan per trade date. The Eligibility Criteria will be as follows:

Standard & Poor's or Moody's Rating	1.	The Aggregate Principal/Notional Balance of the acquired Underlying Assets with a Moody's Rating or a Standard & Poor's Rating of below "Baa3" or "BBB-", respectively, shall not exceed [26.1]% of the Net Outstanding Underlying Asset Balance as of the Closing Date; provided that any such Underlying Assets shall be RMBS Securities.
Dollar denominated	2.	Such security is Dollar denominated and is not convertible into, or payable in, any other currency.
Single Issue	3.	With respect to the particular Issue being acquired, the Aggregate Principal/Notional Balance of such Issue does not exceed:
		(a) [2.5]% of the Net Outstanding Underlying Asset Balance, if such Issue has a Moody's Rating of "Baa3" or higher or a Standard & Poor's Rating of "BBB-" or higher; *provided however* that with respect to up to five such Issues, the Aggregate Principal/Notional Balance of each such Issue may be up to [3.0]% of the Net Outstanding Underlying Asset Balance;
		(b) [1.25]% of the Net Outstanding Underlying Asset Balance, if such Issue has a Moody's Rating of "Ba1" or less and a Standard & Poor's Rating of "BB+" or less; *provided however* that with respect to up to five such Issues, the Aggregate Principal/Notional Balance of each such Issue may be up to [1.5]% of the Net Outstanding Underlying Asset Balance.

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Single Servicer

4. With respect to the Servicer of the Underlying Asset being acquired, the Aggregate Principal/Notional Balance of all Underlying Assets serviced by such Servicer does not exceed [7.50]% of the Net Outstanding Underlying Asset Balance; provided, however, the Aggregate Principal/Notional Balance of all Underlying Assets serviced by such Servicer does not exceed:

(a) [20.0]% of the Net Outstanding Underlying Asset Balance, if such Servicer is rated (i) at least "Aa3" or at least "SQ1-" by Moody's, or (ii) at least "AA-" or at least "Strong" by Standard & Poor's or (iii) at least "AA-" or at least "S-1" by Fitch; and

(b) [12.5]% of the Net Outstanding Underlying Asset Balance, if such Servicer is rated (i) at least "A3" or at least "SQ2-" by Moody's, or (ii) at least "A-" or at least "Above Average" by Standard & Poor's or (iii) at least "A-" or at least "S-2" by Fitch;

provided that [Wells Fargo] or its Affiliates may constitute up to [20.0]%, [Select Portfolio Servicing] or its Affiliates may constitute up to [15.0]% and [Washington Mutual] or its Affiliates may constitute up to [15.0]%, of the Aggregate Principal/Notional Balance of all Underlying Assets; *provided further* that, regardless of clauses (a), (b) and the first proviso above, two single servicers (other than servicers with a servicer rating of "Weak" by Standard & Poor's) may each constitute up to [15.0]% of the Net Outstanding Underlying Asset Balance.

Backed by Obligations of Non-U.S. Obligors

5. The Aggregate Attributable Amount of all Underlying Assets related to obligors organized or incorporated outside the United States does not exceed [5]% of the Net Outstanding Underlying Asset Balance; *provided* that for purposes of this paragraph, "obligors" shall mean the obligors on the underlying receivables; *provided further* that the Aggregate Attributable Amount of all Underlying Assets related to

(a) Qualifying Foreign Obligors (including those obligors organized or incorporated in the United Kingdom or Canada) does not exceed [5]% of the Net Outstanding Underlying Asset Balance; and

(b) obligors (including obligors organized or incorporated in Emerging Markets) organized or incorporated outside the United States, the United Kingdom and Canada (other than Qualifying Foreign Obligors) does not exceed [0.0]% of the Net Outstanding Underlying Asset Balance.

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Consumer ABS Securities	6.	The Aggregate Principal/Notional Balance of all Underlying Assets constituting Consumer ABS Securities does not exceed [15]% of the Net Outstanding Underlying Asset Balance, *provided* that the Aggregate Principal/Notional Balance of all Underlying Assets consisting of:
		(a) Automobile Securities does not exceed [7.5]% of the Net Outstanding Underlying Asset Balance;
		(b) Car Rental Fleet Securities does not exceed [1.5]% of the Net Outstanding Underlying Asset Balance;
		(c) Consumer Loan Securities does not exceed [1.5]% of the Net Outstanding Underlying Asset Balance;
		(d) Credit Card Securities does not exceed [7.5]% of the Net Outstanding Underlying Asset Balance; and
		(e) Student Loan Securities does not exceed [7.5]% of the Net Outstanding Underlying Asset Balance.
Commercial ABS Securities	7.	The Aggregate Principal/Notional Balance of all Underlying Assets constituting Commercial ABS Securities does not exceed [10]% of the Net Outstanding Underlying Asset Balance, *provided* that the Aggregate Principal/Notional Balance of all Underlying Assets consisting of:
		(a) Equipment Lease Securities does not exceed [5]% of the Net Outstanding Underlying Asset Balance; and
		(b) Small Business Loan Securities does not exceed [5]% of the Net Outstanding Underlying Asset Balance.
CMBS Securities	8.	The Aggregate Principal/Notional Balance of all Underlying Assets that are CMBS Securities shall not exceed [10]%, of the Net Outstanding Underlying Asset Balance.
CDO Securities	9.	The Aggregate Principal/Notional Balance of all Underlying Assets that are CDO Securities shall not exceed [10]% of the Net Outstanding Underlying Asset Balance; *provided that*
		(a) no CDO Security shall have a Moody's Rating below "Baa3" or a Standard & Poor's Rating below "BBB-" and
		(b) the Aggregate Principal/Notional Balance of all Underlying Assets that are CDO Securities managed by the Collateral Manager shall not exceed [0]% of the Net Outstanding Underlying Asset Balance.
Synthetic Securities	10.	The Aggregate Principal/Notional Balance of all Underlying Assets that are Synthetic Securities that are Investment Grade shall not exceed []% of the Net Outstanding Underlying Asset Balance.

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Fixed Rate Securities	11.	The Aggregate Principal/Notional Balance of all Underlying Assets that are Fixed Rate Securities shall not exceed [6.0]% of the Net Outstanding Underlying Asset Balance.
Pure Private Asset-Backed Securities	12.	If such Underlying Asset is a Pure Private Asset-Backed Security, the Aggregate Principal/Notional Balance of all such Underlying Assets does not exceed [5.0]% of the Net Outstanding Underlying Asset Balance.
ABX Tranche Securities	13.	The Aggregate Principal/Notional Balance of all Underlying Assets that are ABX Tranche Securities shall not exceed [5]%, of the Net Outstanding Underlying Asset Balance.
Negative Amortization Securities	14.	The Aggregate Principal/Notional Balance of all Underlying Assets that are Negative Amortization Securities shall not exceed [0]%, of the Net Outstanding Underlying Asset Balance.
Interest-Only Securities	15.	The Aggregate Principal/Notional Balance of all Underlying Assets that are Interest-Only Securities shall not exceed [0]%, of the Net Outstanding Underlying Asset Balance.
Principal-Only Securities	16.	The Aggregate Principal/Notional Balance of all Underlying Assets that are Principal-Only Securities shall not exceed [0]%, of the Net Outstanding Underlying Asset Balance.
Maturity	17.	The legal final maturity of such Underlying Asset is no later than the Stated Maturity; *provided* that up to [10]% of the Aggregate Principal/Notional Balance of the Underlying Assets may have a legal final maturity after the Stated Maturity but in no event shall (A) the legal final maturity of any Underlying Asset occur later than five years after the Stated Maturity of the Notes or (B) the expected maturity of any Underlying Asset occur later than the Stated Maturity of the Notes.
PIK Bonds	18.	The Aggregate Principal/Notional Balance of all Underlying Assets that are PIK Bonds shall not exceed [10]% of the Net Outstanding Underlying Asset Balance.
Periodic Interest Payments	19.	The Aggregate Principal/Notional Balance of all Underlying Assets that provide for the periodic payment of interest less frequently than quarterly shall not exceed [5]% of the Net Outstanding Underlying Asset Balance and the Aggregate Principal/Notional Balance of all Underlying Assets that provide for the periodic payment of interest less frequently than semi-annually shall not exceed [0]% of the Net Outstanding Underlying Asset Balance.
Other Eligibility Criteria	20.	Such Underlying Asset is not a Convertible Bond and does not provide for the mandatory conversion or exchange into equity capital at any time.
	21.	Such Underlying Asset is permitted by its terms to be held by, among others, the Issuer or other non U.S. Persons and, if applicable, assigned, participated or otherwise transferred to the Issuer.
	22.	Such Underlying Asset is not an obligation or a Underlying Asset

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the rating of which from Standard & Poor's includes the subscript "p", "pi", "q", "r" or "t".

23. Such Underlying Asset (a) is not a Underlying Asset 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; (b) does not provide for conversion into Margin Stock; and (c) is not a financing by a debtor in possession in any insolvency proceeding.

24. Such Underlying Asset does not have a coupon or other payment that is subject to withholding tax, in each case, unless the issuer of the security is required to make "gross up payments" for the total amount of withholding on an after tax basis.

25. The acquisition of such Underlying Asset will not cause the Issuer to be subject to entity level taxation.

26. If such Underlying Asset is a Step Up Bond, the Aggregate Principal/Notional Balance of all such Underlying Assets does not exceed [5.0]% of the Net Outstanding Underlying Asset Balance. If such Underlying Asset is a Step Down Bond, the Aggregate Principal/Notional Balance of all such Underlying Assets does not exceed [5.0]% of the Net Outstanding Underlying Asset Balance.

27. Such Underlying Asset is not a security that is not eligible under its Underlying Instruments to be purchased by the Issuer and granted to the Trustee.

28. Such Underlying Asset is not a floating rate security whose interest rate is inversely related to an interest rate index.

29. Such Underlying Asset is included in one of the Specified Types.

30. Such Underlying Asset has a Moody's Rating of "[Ba2]" or higher and a Standard & Poor's Rating of "[BB]" or higher.

The Initial Investment Agreement

The information appearing under "Security for the Notes—The Initial Investment Agreement" with respect to the Initial Investment Agreement Provider has been derived from a description thereof provided by the Initial Investment Agreement Provider. The Initial Investment Agreement Provider has reviewed such information, but such information has not been independently verified by the Co-Issuers, the Collateral Manager, the Initial Purchaser, any Interest Rate Swap Counterparty or the Synthetic Security Counterparty.

Amounts on deposit in the Synthetic Security Collateral Account may be invested in Eligible Investments and will initially be invested under an investment agreement, dated as of the Closing Date (such agreement, the **"Initial Investment Agreement,"** and, together with any Replacement Investment Agreement, the **"Investment Agreement"** and amounts so invested, the **"Investment"**), among the Issuer, the Trustee and [ ], as investment agreement provider (in such capacity, the **"Initial Investment Agreement Provider"**). On the Closing Date, funds in an amount of approximately $[ ] are expected to be invested as Investments.

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Pursuant to the Initial Investment Agreement, the Initial Investment Agreement Provider will be required to pay interest until the Initial Investment Agreement is terminated or terminates by its terms at a floating rate *per annum* equal to three-month LIBOR *minus* []% on the amounts invested thereunder. Interest on the Investment will accrue over each Interest Period and will be payable on the Business Day immediately prior to the Distribution Dates, commencing in [ ] 2007.

On any Business Day of each month, subject to applicable notice requirements specified in the Initial Investment Agreement, the Trustee may make a withdrawal from the Initial Investment Agreement in order to make payments as described under Allocation Procedures.

On or immediately prior to the Final Maturity Date, the Trustee (acting pursuant to the Indenture on behalf of the Issuer) will have the right to demand payment in full under the Initial Investment Agreement (if it is then in effect). On the Final Maturity Date of the Notes, all net proceeds from such liquidation and all available cash will be distributed in accordance with the priority of distribution provisions described herein.

The Trustee, subject to the Indenture, will upon the occurrence of an event of default under the Initial Investment Agreement, take actions to enforce the rights of the Issuer under the Initial Investment Agreement and to obtain payment to the Trustee of all amounts due thereunder to the extent required or directed to do so in accordance with the Indenture.

In the event that the financial strength ratings of the Initial Investment Agreement Provider are downgraded below certain thresholds specified in the Initial Investment Agreement, the Initial Investment Agreement Provider is required to perform one or more of the following actions: (i) post collateral of the kind and in the amount and form to the satisfaction of the Rating Condition, or (ii) transfer the Initial Investment Agreement to an entity approved by the Collateral Manager and satisfying the rating requirements (as specified in the Initial Investment Agreement). If within ten Business Days of a ratings event which it may remedy by (i) above or, within 30 days of a ratings event which it may remedy by (ii) above, the Initial Investment Agreement Provider does not remedy the situation by satisfying the relevant requirements of one or more of clause (i) or (ii) above, then the Initial Investment Agreement Provider will pay the entire balance of the Investment, together with all accrued, unpaid interest to the Trustee. Upon any such payment in full, the Initial Investment Agreement shall terminate.

Events of default under the Initial Investment Agreement include a failure by the Initial Investment Agreement Provider to make any payment when due pursuant to the Initial Investment Agreement, certain bankruptcy and insolvency events with respect to the Initial Investment Agreement Provider, a failure by the Initial Investment Agreement Provider to perform, in any material respect, any of its other obligations under the Initial Investment Agreement which continues for at least ten Business Days after receipt of notice thereof.

Upon the occurrence of an event of default under the Initial Investment Agreement, the Trustee the Issuer and the Collateral Manager will have the right to declare the entire balance of the Investment and all accrued and unpaid interest to be due and payable immediately and to withdraw such entire balance and unpaid interest. If, as a result of the occurrence of an event of default, the entire balance of the Investment and all unpaid interest are so withdrawn by the Trustee, the Initial Investment Agreement will be terminated on the date of such withdrawal. If an event of default occurs under the Initial Investment Agreement and the Initial Investment Agreement is terminated, any amounts withdrawn by the Issuer in connection therewith may be reinvested in Eligible Investments.

If there is a withdrawal of the funds, then a breakage fee may be payable and the gross amount of interest or principal due may be paid net of the breakage fee.

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The Initial Investment Agreement Provider. The Initial Investment Agreement is being provided by [ ] or the **"Initial Investment Agreement Provider"**). Except for the information contained under this subheading, the Initial Investment Agreement Provider has not been involved in the preparation of, and does not accept responsibility for this Offering Circular.

[] ("[ ]"). [ ] consists of [ ] and certain subsidiaries and, as of December 31, 200{ }, [Description of Provider.]

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The Interest Rate Swap Agreement

After the Closing Date, subject to satisfaction of the Rating Condition, the Issuer may enter into an ISDA Master Agreement pursuant to which the Issuer will enter into an interest rate swap entered into in accordance with the Indenture (such interest rate swap, together with any replacement therefor or additional swap agreement entered into in accordance with the Indenture, the **"Interest Rate Swap Agreement"**) with Deutsche Bank AG or one of its Affiliates (together with its successors, the **"Interest Rate Swap Counterparty"**). The address of the Interest Rate Swap Counterparty is [ ]. Any Interest Rate Swap Agreement will provide that the Issuer will pay to the relevant Interest Rate Swap Counterparty on each related Distribution Date interest at a fixed rate on a specified notional amount, in exchange for which the Interest Rate Swap Counterparty will pay to the Issuer interest on such notional amount at a rate equal to three-month LIBOR for the related calculation period. The Interest Rate Swap Counterparty will satisfy the ratings requirements specified by each of the Rating Agencies for the Interest Rate Swap Counterparty.

Any Interest Rate Swap Agreement will provide that, for each Distribution Date prior to the termination of such Interest Rate Swap Agreement, the Interest Rate Swap Counterparty will pay to the Issuer a quarterly floating amount equal to the product of:

- the three-month LIBOR rate for the relevant quarterly calculation period;
- the specified hedge notional amount for the relevant quarterly calculation period; and
- the quotient of the actual number of days in that period *divided* by 360.

In exchange for the floating amounts due from the Interest Rate Swap Counterparty, and subject to the payment netting provisions of the Interest Rate Swap Agreement, the Issuer will pay to the Interest Rate Swap Counterparty, for each Distribution Date prior to the termination of the Interest Rate Swap Agreement, a quarterly fixed amount equal to the product of:

- fixed swap rate for the relevant quarterly calculation period;
- the specified swap notional amount for the relevant quarterly calculation period; and
- the quotient of 30 over 360, calculated quarterly, adjusted.

Any Interest Rate Swap will expire after the [] Distribution Date. Pursuant to the Priority of Payments, scheduled payments required to be made by the Issuer under the Interest Rate Swap Agreement, together with any termination payments payable by the Issuer other than by reason of an event of default with respect to the Interest Rate Swap Counterparty or termination event where the Interest Rate Swap Counterparty is the "defaulting party" or the sole "affected party," will be payable pursuant to clause (3) under "Description of the Notes—Priority of Payments—Interest Proceeds" and, if Interest Proceeds are insufficient to pay such amounts in full, from Principal Proceeds pursuant to clause (1) under "Description of the Notes—Priority of Payments—Principal Proceeds." The Interest Rate Swap Agreement will be governed by New York law.

If the Interest Rate Swap Counterparty or its guarantor fails to maintain certain rating levels described in the Indenture and the Interest Rate Swap Agreement, such Interest Rate Swap Counterparty may be required to post collateral or assign its rights and obligations under the Interest Rate Swap Agreement to a replacement Interest Rate Swap Counterparty and, if the Interest Rate Swap Counterparty does not take such action as required under the Interest Rate Swap Agreement, the Issuer

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will be permitted to terminate the Interest Rate Swap Agreement. See "Risk Factors—Interest Rate Risk" for a discussion of certain considerations with respect to the Interest Rate Swap Agreement.

The Collateral Manager will have a limited role in connection with decisions relating to the Interest Rate Swap Agreement. Pursuant to the Indenture, the Issuer may not reduce the notional amount under the Interest Rate Swap Agreement. However, on any date (each such date, a **"Collateral Imbalance Date"**) on which the Net Outstanding Underlying Asset Balance is less than the notional amount of the Interest Rate Swap Agreement, the Interest Rate Swap Counterparty to the Interest Rate Swap Agreement will designate an early termination date with respect to the portion of the notional amount of each hedging transaction so affected; *provided, however*, that the Rating Condition must be satisfied with respect to any such early termination date. In addition, the Issuer may enter into a replacement Interest Rate Swap Agreement upon termination of an Interest Rate Swap Agreement or enter into additional Interest Rate Swap Agreements with the advice of the Collateral Manager only (a) if the Rating Condition is satisfied and (b) with respect to any additional Interest Rate Swap Agreement, the Interest Rate Swap Counterparty consents to such additional Interest Rate Swap Agreement.

The Interest Rate Swap Counterparty may terminate the Interest Rate Swap Agreement with the Issuer in limited circumstances whether or not the Notes have been paid in full prior to such termination, including in the event of (a) a failure by the Issuer to make, when due, any payment under the Interest Rate Swap Agreement within the applicable grace period; (b) certain events of bankruptcy, insolvency, conservatorship, receivership or reorganization of the Issuer; (c) a change in law making it illegal for either the Issuer or the Interest Rate Swap Counterparty to be a party to, or perform an obligation under, the Interest Rate Swap Agreement; (d) an Event of Default under the Indenture followed by a liquidation of Collateral on the Accelerated Maturity Date; and (e) the occurrence of a Clean-up Call Redemption, Optional Redemption, Tax Redemption, or Auction Call Redemption. With respect to such terminations, any amounts payable upon the termination of the Interest Rate Swap Agreement will be based upon standard replacement transaction valuation methodology set forth in the 1992 ISDA Master Agreement published by ISDA. In addition, the Issuer will not agree, without satisfaction of the Rating Condition solely with respect to Standard & Poor's, to any amendment, modification, or waiver of any provision of the Interest Rate Swap Agreement.

The obligations of the Issuer under the Interest Rate Swap Agreement are limited recourse obligations payable solely from the Collateral pursuant to the Priority of Payments.

The Accounts

Collection Accounts

All distributions on the Underlying Assets and any proceeds received from the Disposition of any such Underlying Assets, to the extent such distributions or proceeds constitute Interest Proceeds and any amounts payable to the Issuer by any Interest Rate Swap Counterparty under the Interest Rate Swap Agreement (other than amounts received by the Issuer by reason of an event of default or termination event thereunder) 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 Underlying Assets and any proceeds received from the Disposition of any such Underlying Assets to the extent such distributions or proceeds constitute Principal Proceeds (unless simultaneously reinvested in Eligible Investments) 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"**). Amounts on credited to the Principal Collection Account shall be applied in accordance with the Priority of Payments. The Collection Accounts shall be maintained for the benefit of the Noteholders and amounts on deposit therein will be available, together with reinvestment

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earnings thereon, for application in the order of priority set forth above under "Description of the Notes—Priority of Payments."

Amounts received in the Collection Accounts during a Due Period 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 as otherwise permitted under the Indenture.

"Eligible Investments" include any Dollar-denominated investment that is not a Prohibited Asset and is one or more of the following (and may include investments for which the Trustee and/or its affiliates provides services):

(a) cash;

(b) direct Registered obligations of, and Registered obligations the timely payment of principal and interest on which is fully and expressly guaranteed by, the United States or any agency or instrumentality of the United States the obligations of which are expressly backed by the full faith and credit of the United States;

(c) demand and time deposits in, certificates of deposit of, bankers' acceptances payable within 183 days of issuance issued by, or Federal funds sold by any depository institution or trust company incorporated under the laws of the United States or any state thereof and subject to supervision and examination by Federal and/or state banking authorities so long as the commercial paper and/or the debt obligations of such depository institution or trust company (or, in the case of the principal depository institution in a holding company system, the commercial paper or debt obligations of such holding company) at the time of such investment or contractual commitment providing for such investment have a credit rating of not less than "Aa2" by Moody's, and if so rated, such rating is not on watch for downgrade by Moody's, "AA+" by Standard & Poor's and "AA+" by Fitch Ratings (**"Fitch"**) (if rated by Fitch) in the case of long-term debt obligations, or "P 1" by Moody's, and if so rated, such rating is not on watch for downgrade by Moody's, "A 1+" by Standard & Poor's and "F1+" by Fitch (if rated by Fitch) in the case of commercial paper and short-term debt obligations; provided that (i) in each case, the issuer thereof must have at the time of such investment or contractual commitment providing for such investment a long-term credit rating of not less than "Aa2" by Moody's, and if so rated, such rating is not on watch for downgrade by Moody's, and "AA+" by Fitch (if rated by Fitch) and (ii) in the case of commercial paper and short-term debt obligations with a maturity of longer than 91 days, the issuer thereof must also have at the time of such investment or contractual commitment providing for such investment a long-term credit rating of not less than "AA+" by Standard & Poor's and "AA+" by Fitch (if rated by Fitch);

(d) unleveraged repurchase obligations (if treated as debt for tax purposes by the issuer) 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 at the time of such investment or contractual commitment providing for such investment is not less than "Aa2" by Moody's, and if so rated, such rating is not on watch for downgrade by Moody's, "AA+" by Standard & Poor's and "AA+" by Fitch (if rated by Fitch) or whose short-term credit rating at the time of such

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investment or contractual commitment providing for such investment is "P 1" by Moody's, and if so rated, such rating is not on watch for downgrade by Moody's, "A 1+" by Standard & Poor's and "F1+" by Fitch (if rated by Fitch) at the time of such investment or contractual commitment providing for such investment; provided that (i) in each case, the issuer thereof must have at the time of such investment or contractual commitment providing for such investment a long-term credit rating of not less than "Aa2" by Moody's, and if so rated, such rating is not on watch for downgrade by Moody's, and "AA+" by Fitch (if rated by Fitch) 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 or contractual commitment providing for such investment a long-term credit rating of not less than "AA+" by Standard & Poor's and not less than "AA+" by Fitch (if rated 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 at the time of such investment or contractual commitment providing for such investment of not less than "Aa2" by Moody's, and if so rated, such rating is not on watch for downgrade by Moody's, "AA" by Standard & Poor's and "AA+" by Fitch (if rated 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 or contractual commitment providing for such investment a credit rating of "A 1+" by Standard & Poor's and "F1+" by Fitch (if rated by Fitch); provided that (i) in each case, the issuer thereof must have at the time of such investment or contractual commitment providing for such investment a long-term credit rating of not less than "Aa2" by Moody's, and if so rated, such rating is not on watch for downgrade by Moody's, and "AA+" by Fitch (if rated by Fitch) 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 or contractual commitment providing for such investment a long-term credit rating of not less than "AA" by Standard & Poor's and not less than "AA+" by Fitch (if rated 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 (if treated as debt for tax purposes by the issuer), in each case, that has a credit rating of not less than "P-1" by Moody's, and if so rated, such rating is not on watch for downgrade by Moody's, "A-1+" by Standard & Poor's and "F1+" by Fitch (if rated 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 so rated, such rating is not on watch for downgrade by Moody's, and "AA+" by Fitch (if rated by Fitch) and (ii) if such security has a maturity of longer than 91 days, the issuer thereof must also have at the time of such investment a long-term credit rating of not less than "AA" by Standard & Poor's and not less than "AA+" by Fitch (if rated by Fitch);

(h) 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; provided that (i) such fund or vehicle is formed outside the United States and is not engaged in a United States trade or business, (ii) no income to be received from such fund or vehicle is or will be subject to deduction or withholding for or on account of any withholding or

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similar tax, and (iii) the ownership of an interest in such fund or vehicle will not subject the Issuer to net income tax in any jurisdiction;

(i) any guaranteed investment contract, asset swap, funding agreement, investment agreement or other similar agreement from, or a note or a certificate backed by any guaranteed investment contract, funding agreement, investment agreement or other similar agreement from, a bank, insurance company or other corporation or entity and has a long-term unsecured obligation rating of at least "AA-" by Standard & Poor's and at least "Aa3" by Moody's; and

(j) any other security the acquisition of which satisfies the Rating Condition and the ownership of which will not subject the Issuer to income tax on a net income basis for U.S. federal income tax purposes;

and, in each case (other than clause (a) or (i) or (j)), with a stated maturity (giving effect to any applicable grace period) no later than the Business Day immediately preceding the Distribution Date immediately following the Due Period in which the date of investment occurs; *provided* that Eligible Investments may not include (i) any security that does not provide for the repayment of a stated fixed amount of principal in one or more installments, any interest-only security, any security purchased at a price in excess of 100% of the par value thereof or any security whose repayment is subject to substantial non-credit related risk as determined in the reasonable business judgment of the Collateral Manager, (ii) any Floating Rate Security whose interest rate is inversely or otherwise not proportionately related to an interest rate index or is calculated as other than the sum of an interest rate index *plus* a spread, (iii) any security subject to withholding tax in any jurisdiction or (iv) any security that is subject to an Offer and has not been called for redemption. Notwithstanding the foregoing, Eligible Investments will not include PIK Bonds, CMBS Securities, RMBS Securities, margin stock, securities that do not provide for the periodic payment of interest or which are zero coupon bonds and any security with a rating from Standard & Poor's which includes the subscript "p," "pi," "q," "r" or "t". The Trustee or its Affiliates are permitted to receive additional compensation that could be deemed to be in the Trustee's economic self-interest for (x) serving as investment advisor, administrator, shareholder, servicing agent, custodian or sub-custodian with respect to certain of the Eligible Investments, (y) using Affiliates to effect transactions in certain Eligible Investments and (z) effecting transactions in certain Eligible Investments; *provided, however,* that such compensation shall not be an amount that is reimbursable or payable by the Issuer or otherwise pursuant to the Indenture. For the avoidance of doubt, an Eligible Investment is not an Underlying Asset.

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 Due Period with respect to such Distribution Date) required for payments to Noteholders and payments of fees and expenses in accordance with the priority described under "Description of the Notes—Priority of Payments." In addition, any Uninvested Proceeds on deposit in the Uninvested Proceeds Account on the Determination Date preceding the First Distribution Date will be transferred to the Payment Account and treated as Principal Proceeds on the First Distribution Date and distributed in accordance with the Priority of Payments.

Expense Account

On the Closing Date, after payment of the organizational and structuring fees and expenses of the Issuers (including, without limitation, the legal fees and expenses of counsel to the Issuers, the Initial

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Purchaser and the Collateral Manager) and the expenses of offering the Notes, at least U.S.$ [ ] from the proceeds of the offering of the Notes will be deposited by the Trustee into a single, segregated account established and maintained by the Trustee under the Indenture (the **"Expense Account"**). All funds on deposit in the Expense Account will be invested in Eligible Investments. Amounts standing to the credit of the Expense Account may be used to pay administrative expenses (including indemnities) and organization fees of the Issuers on any day other than a Distribution Date (other than fees of the Trustee, but including other amounts payable by the Issuer to the Collateral Manager under the Management Agreement or the Indenture). Amounts credited to the Expense Account will be (a) applied on or prior to the Determination Date preceding the First Distribution Date to pay amounts due in connection with the offering of the Notes and Preference Shares and (b) on the First Distribution Date, to the extent that the balance of the Expense Account exceeds U.S.$ [ ] on the related Determination Date, transferred to the Payment Account and applied as Interest Proceeds. After the Closing Date, additional amounts may be credited to the Expense Account on any Distribution Date as described under "Description of the Notes—Priority of Payments."

Uninvested Proceeds Account

On the Closing Date, the Trustee will deposit the net proceeds (if any) from the issuance and sale of the Notes and Preference Shares *plus* any principal collections on the Underlying Assets received on or prior to the Closing Date that, on the Closing Date, are not invested in Underlying Assets, not deposited in the Collection Accounts and not deposited in the Expense Account into a single, segregated account established and maintained by the Trustee under the Indenture (the **"Uninvested Proceeds Account"**). At the direction of the Collateral Manager, amounts (if any) standing to the credit of the Uninvested Proceeds Account will be used to acquire Underlying Assets and Eligible Investments, which Eligible Investments shall be in overnight deposits. Investment earnings on Eligible Investments in the Uninvested Proceeds Account will be transferred to the Interest Collection Account and treated as Interest Proceeds on the First Distribution Date. In addition, any Uninvested Proceeds on deposit in the Uninvested Proceeds Account on the Determination Date preceding the First Distribution Date will be transferred to the Payment Account and treated as Principal Proceeds on the First Distribution Date and distributed in accordance with the Priority of Payments.

Disposition Proceeds Account

All Disposition Proceeds will be deposited into a single, segregated account established and maintained by the Trustee under the Indenture (the **"Disposition Proceeds Account"**) and (i) either used to purchase one or more Underlying Assets within [180] days from the date of deposit into the Disposition Proceeds Account; or (ii) after [180] days from the date of deposit into the Disposition Proceeds Account, if not used to purchase Underlying Assets, transferred to the Principal Collection Account and designated as Principal Proceeds and on the following Distribution Date distributed in accordance with the Priority of Payments. In no event shall Disposition Proceeds be designated as Interest Proceeds.

Preference Share Payment Account

On each Distribution Date, the Trustee, in accordance with the Priority of Payments, will transfer to the Preference Share Paying Agent the amounts (if any) for deposit to a segregated account (the **"Preference Share Payment Account"**) established and maintained by the Preference Share Paying Agent pursuant to the Preference Share Paying Agency Agreement. The Preference Share Payment Account and any sums standing to the credit thereof shall not form part of the Collateral.

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Synthetic Security Collateral Account

The Trustee will establish a segregated trust account (the **"Synthetic Security Collateral Account"**), that will be maintained by the Trustee as entitlement holder in respect of each Synthetic Security Counterparty and over which the Trustee will have exclusive control and the sole right of withdrawal in accordance with the Synthetic Securities and the Indenture. As directed by the Collateral Manager, the Trustee will, on the Closing Date, deposit into the relevant Synthetic Security Collateral Account all cash and Eligible Investments that are required to secure the obligations of the Issuer in accordance with the terms of the Synthetic Securities and the Offsetting Transactions. The Synthetic Security Collateral Account shall remain at all times with a financial institution having a long-term debt rating of at least "BBB+" by Standard & Poor's, at least "Baa1" by Moody's, and at least "BBB+" by Fitch and a combined capital and surplus in excess of $[].

As directed by the Collateral Manager in writing, cash on deposit in any Synthetic Security Collateral Account will be invested in Eligible Investments. Interest payments on Eligible Investments credited to any Synthetic Security Collateral Account will be applied, as directed by the Collateral Manager, to the payment of any periodic amounts owed by the Issuer to the related Synthetic Security Counterparty or Offsetting Transaction Counterparty on the date any such amounts are due. After application of any such amounts, any remaining interest payments then contained in the related Synthetic Security Collateral Account will be withdrawn from such account and deposited in the Collection Account for distribution as Interest Proceeds. Cash and Eligible Investments on deposit in any Synthetic Security Collateral Account will be included in the Collateral to the extent provided under "Security for the Notes—General" herein, will not be available to make payments under the Notes and shall not be considered to be an asset of the Issuer for purposes of any of the Collateral Quality Tests or the Coverage Tests, but the Synthetic Securities that relate to the Synthetic Security Collateral Account shall be considered an asset of the Issuer.

In the event a Synthetic Security or Offsetting Transaction is terminated prior to its scheduled maturity, the Collateral Manager on behalf of the Issuer shall cause such portion of the collateral in the related Synthetic Security Collateral Account that (subject to the Allocation Procedures) is available for making partial or full termination payment owed, if any, to the related Synthetic Security Counterparty or Offsetting Transaction Counterparty to be delivered to such Synthetic Security Counterparty or Offsetting Transaction Counterparty, and the remaining collateral for such terminated Synthetic Security or Offsetting Transaction in the related Synthetic Security Collateral Account (to the extent not required to be pledged to the related Synthetic Security Counterparty or Offsetting Transaction Counterparty) shall be released from the lien of the related Synthetic Security Counterparty and the Offsetting Transaction Counterparty and granted to the Trustee free of such lien. Any cash received upon the maturity or liquidation of any such collateral in the related Synthetic Security Collateral Account released from the lien of the relevant Synthetic Security Counterparty and the Offsetting Transaction Counterparty shall be credited to the Disposition Proceeds Account or deemed to be Principal Proceeds and credited to the Principal Collection Account.

Upon the occurrence of a "credit event" under a Synthetic Security, at the direction of the Collateral Manager, the related collateral in the related Synthetic Security Collateral Account will be delivered to the related Synthetic Security Counterparty, to the extent required, upon delivery of a Delivered Obligation. In the event a "credit event" has occurred and the Issuer is required to liquidate such collateral in the related Synthetic Security Collateral Account and deliver cash to the relevant Synthetic Security Counterparty, the Issuer will bear any market risk on the liquidation of the collateral in such Synthetic Security Collateral Account.

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Amounts contained in any Synthetic Security Collateral Account shall be withdrawn by the Trustee and applied toward the payment of any amounts payable by the Issuer to the related Synthetic Security Counterparty or Offsetting Transaction Counterparty in accordance with the terms of the Indenture and the related Synthetic Security or Offsetting Transaction, as directed by the Collateral Manager in writing. Any Excess Collateral Account Amount shall be withdrawn from any Synthetic Security Collateral Account and deposited in the Principal Collection Account or Disposition Proceeds Account for application in accordance with the terms of the Indenture; *provided* that to the extent that any such withdrawal from such Synthetic Security Collateral Account would require a withdrawal from the Initial Investment Agreement, such withdrawal may only be made in accordance with the terms of the Initial Investment Agreement. **"Excess Collateral Account Amount"** means the excess of (i) the related Synthetic Security Collateral Amount over (ii) the sum of (A) the related Required Synthetic Security Collateral Amount and (B) the absolute value of the net loss on the relevant Offset Transactions.

Synthetic Security Issuer Accounts

If and to the extent that any Synthetic Security requires a Synthetic Security Counterparty to secure its obligations with respect to such Synthetic Security, the Trustee will establish a segregated trust account, held in the name of the Trustee (each such account, a **"Synthetic Security Issuer Account"**). The Trustee shall deposit into each Synthetic Security Issuer Account all amounts that are required to secure the obligations of the Synthetic Security Counterparty in accordance with the terms of such Synthetic Security. Except for investment earnings, a Synthetic Security Counterparty shall not have any legal, equitable or beneficial interest in any Synthetic Security Issuer Account other than in accordance with the Indenture, the applicable Synthetic Security and applicable law. The Synthetic Security Issuer Accounts shall remain at all times with a financial institution having a long-term debt rating of at least "BBB+" by Standard & Poor's, at least "Baa1" by Moody's, and at least "BBB+" by Fitch and a combined capital and surplus in excess of $[].

As directed by the Collateral Manager in writing and in accordance with the applicable Synthetic Security, cash on deposit in a Synthetic Security Issuer Account on behalf of the Issuer shall be invested in Eligible Investments. Income received on amounts on deposit in the Synthetic Security Issuer Account may be withdrawn from such account and paid to the related Synthetic Security Counterparty in accordance with the applicable Synthetic Security.

Cash and Eligible Investments on deposit in each Synthetic Security Issuer Account will not be included in the Collateral and will not be available to make payments under the Notes other than as required under the related Synthetic Security. Amounts contained in any Synthetic Security Issuer Account shall not be considered to be an asset of the Issuer for purposes of any of the Collateral Quality Tests or the Coverage Tests, but the Synthetic Security or Synthetic Securities that relate to such Synthetic Security Issuer Account shall be so considered an asset of the Issuer.

With respect to any obligation by the Synthetic Security Counterparty for payment under any Synthetic Security, amounts contained in the related Synthetic Security Issuer Account shall, as directed by the Collateral Manager in writing, be withdrawn by the Trustee and applied to the payment of such obligation payable by the related Synthetic Security Counterparty to the Issuer. Any excess amounts held in a Synthetic Security Issuer Account after payment of all amounts owing from the related Synthetic Security Counterparty to the Issuer shall be withdrawn from such Synthetic Security Issuer Account and paid to the related Synthetic Security Counterparty in accordance with the applicable Synthetic Security.

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THE ISSUERS

General

The Issuer was incorporated as an exempted company with limited liability and registered on [], 2006 in the Cayman Islands with registered number [], is in good standing under the laws of the Cayman Islands and has an indefinite existence. The Issuer has been established as a special purpose vehicle for the purpose of issuing the Notes. The registered office of the Issuer is at the offices of Maples Finance Limited, P.O. Box 1093GT, Queensgate House, South Church Street, George Town, Grand Cayman, Cayman Islands. The Issuer's telephone number is +1(345) 945-7100. The Issuer has no prior operating experience other than in connection with the acquisition of certain Underlying Assets prior to the issuance of the Notes and the Preference Shares and the engagement of the Collateral Manager 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, among other things, the Notes and the Issuer's obligations to the Trustee, the Collateral Manager, any Interest Rate Swap Counterparty, the Offsetting Transaction Counterparty and the Synthetic Security Counterparty. Clause 3 of the Issuer Charter sets out the objects of the Issuer, which include the business to be carried out by the Issuer in connection with the Notes. As at the Closing Date, the entire authorized shares of the Issuer will consist of (a) [250] ordinary shares, par value U.S.$1.00 each (all of which will be issued and 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) and (b) [] Preference Shares, par value U.S.$0.01, all of which will be issued at a liquidation preference of U.S.$1,000 each.

The Co-Issuer was incorporated on March [ ], 2007 under the law of the State of Delaware with an organizational number [ ] and its registered office is c/o Donald Puglisi, 850 Library Avenue, Suite 204, Newark, Delaware 19711. The sole director and officer of the Co-Issuer is Donald Puglisi, and he may be contacted at the principal office of the Co-Issuer listed on the last page of this Offering Circular. The Co-Issuer's telephone number is +1(302) 738-6680. The Co-Issuer has no prior operating experience. The Co-Issuer has been established as a special purpose vehicle for the purpose of issuing the Notes. It will not have any assets (other than its U.S.$1,000 of share capital owned by the Issuer) and will not pledge any assets to secure the Notes. The third clause of the Co-Issuer's certificate of incorporation sets out the objects of the Co-Issuer, which include the business to be carried out by the Co-Issuer in connection with the Notes. The Co-Issuer will not have any interest in the Underlying Assets or other assets held by the Issuer.

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

Maples Finance Limited will act as the administrator (in such capacity, the **"Administrator"**) and the Share Registrar of the Issuer. The office of the Administrator will serve as the general business office of the Issuer. Through this office and pursuant to the terms of an agreement by and between the Administrator and the Issuer (the **"Administration Agreement"**), the Administrator will perform various management functions on behalf of the Issuer, including 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 and the Issuer will provide certain indemnities to the Administrator in connection with its performance of such services.

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The Administrator will be subject to the overview of the Board of Directors of the Issuer. The directors of the Issuer are Wendy Ebans and Carlos Farjallah, each of whom is a director or officer and an employee of the Administrator and each of whose offices are at P.O. Box 1984 GT, Elizabethan Square, George Town, Grand Cayman, Cayman Islands. The Administration Agreement may be terminated by the Issuer or the Administrator upon 14 days' notice following the occurrence of certain events. In addition, the Administration Agreement may be terminated upon three months' notice (subject to the appointment of a replacement administrator).

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

Capitalization and Indebtedness of the Issuer and the Co-Issuer

The initial capitalization and indebtedness of the Issuer as of the Closing Date, after giving effect to the issuance of the Notes, the Preference Shares and the ordinary shares of the Issuer but before deducting expenses of the offering of the Notes and of the placement of the Preference Shares and organizational expenses of the Issuers, is expected to be as follows:

Class A-1 Notes	U.S.$[ ]
Class A-2 Notes	U.S.$[ ]
Class B Notes	U.S.$[ ]
Class C Notes	U.S.$[ ]
Class D Notes	U.S.$[ ]
Class E Notes	U.S.$[ ]
Total Debt	U.S.$[]
Ordinary Shares	[250]
Preference Shares	U.S.$[],000
Total Equity	U.S.$[],250
Total Capitalization	U.S.$[]

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

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

The Co-Issuer will be capitalized only to the extent of its U.S.$[250] of share capital, will have no assets other than its share capital 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 shares, the authorized and issued share capital of the Co-Issuer will be [250] shares of common stock, par value U.S.$1.00 per share.

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Business

The Indenture and the Issuer Charter provide that the activities of the Issuer are limited to (a) investment and reinvestment in Underlying Assets and Eligible Investments, (b) the entering into, and the performance of its obligations under, the Indenture, any Interest Rate Swap Agreement, the Offset Transactions, the Offsetting Transactions, the Synthetic Securities, any Investment Agreement, the Management Agreement, the Collateral Administration Agreement, the Administration Agreement, the Note Purchase Agreement, the Subscription Agreements and the Preference Share Paying Agency Agreement, (c) the issuance and sale of the Notes and Preference Shares, (d) the pledge of the Collateral as security for its obligations in respect of the Notes and its obligations to the other Secured Parties, (e) ownership of the Co-Issuer and (f) other activities incidental to the foregoing. The Issuer has no employees and no subsidiaries other than the Co-Issuer. The Co-Issuer will not undertake any business other than the issuance of the Notes.

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 law, and the Co-Issuer does not intend, to publish annual reports and accounts. The Indenture, however, requires the Issuer to provide the Trustee, on an annual basis, with a certificate reviewing the activities of the Issuer and of the Issuer's performance during the preceding year and stating that, to the best of the certifying officer's knowledge, the Issuer has fulfilled all of its obligations under the Indenture or, if there has been a default, specifying such default, the nature and status thereof and any actions undertaken to remedy such default.

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THE COLLATERAL MANAGER

The information appearing in this section (other than the information contained under the heading "General") has been prepared by the Collateral Manager and has not been independently verified by the Issuers or the Initial Purchaser. Neither the Issuers nor the Initial Purchaser assumes any responsibility for the accuracy, completeness or applicability of such information. Accordingly, the Collateral Manager assumes sole responsibility for the accuracy, completeness or applicability of such information.

General

Certain administrative and advisory functions with respect to the Collateral will be performed by the Collateral Manager under the Management Agreement to be entered into between the Issuer and the Collateral Manager (the **"Management Agreement"**). The Collateral Manager will, pursuant to the terms of the Management Agreement, select, monitor and provide the Issuer with certain information relating to, the portfolio of Underlying Assets, may act as the Auction Agent, direct the Disposition certain Underlying Assets, including any Credit Risk Asset, Credit Improved Asset, Defaulted Asset, Withholding Security or Equity Security, or instruct the Trustee with respect to the purchase of Underlying Assets and investment in Eligible Investments as further set forth herein.

Additionally, during the Reinvestment Period, the Collateral Manager is permitted to Dispose of any Underlying Asset that is Investment Grade other than an Equity Security, Credit Risk Asset, Defaulted Asset, Withholding Security or Credit-Improved Asset; provided that, for any given calendar year, the aggregate principal balance of any such Underlying Assets Disposed of does not exceed 20% of the aggregate principal balance of all Underlying Assets.

All acquisitions and Dispositions of Eligible Investments and Underlying Assets, and all Dispositions of Equity Securities, by the Collateral Manager on behalf of the Issuer shall be conducted in compliance with all applicable laws. The Collateral Manager shall cause any acquisition or Disposition of any Underlying Asset or Eligible Investment, and the sale of any Equity Security, to be conducted on an arm's-length basis or as provided in the Indenture with respect to a redemption of the Notes and/or Preference Shares.

One or more Affiliates of the Collateral Manager will acquire all of the Preference Shares and may acquire some or all of the Class E Notes on the Closing Date. In addition, the Management Agreement will provide that the Collateral Manager shall notify the Trustee or the Preference Share Paying Agent, as applicable, upon the sale or transfer by the Collateral Manager of any Preference Shares to a person that is not an Affiliate of the Collateral Manager, and the Trustee shall deliver notice of such transfer to the holders of the Notes (to the extent such Notes remain outstanding). The Collateral Manager and its Affiliates may at times own Notes. At any given time, the Collateral Manager and its Affiliates will not be entitled to vote the Collateral Manager Securities with respect to any assignment or termination of any of the express rights or obligations of the Collateral Manager under the Management Agreement or the Indenture (including the exercise of any rights to remove the Collateral Manager or terminate the Management Agreement), or any amendment or other modification of the 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 the Notes and Preference Shares held by them with respect to all other matters. See "Risk Factors—Certain Conflicts of Interest."

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HBK Investments L.P.

HBK Investments L.P., a Delaware limited partnership (together with its affiliated subadvisors and their respective successors, **"HBK"**), will act as Collateral Manager to the Issuer (in such capacity, the **"Collateral Manager"**). Collateral management services for the Issuer will be performed by various affiliated subadvisors of HBK Investments L.P., which are under common control with HBK Investments L.P. The headquarters of HBK are located at 300 Crescent Court, Suite 700, Dallas, Texas 75201.

HBK was founded in 1991. HBK is managed by thirteen managing directors and has offices in Dallas, New York, London, Hong Kong and Tokyo. HBK is an investment management firm that, as of December 31, 2006, had approximately $12 billion in capital under management.

From time to time, HBK has responded to various requests for information from governmental and regulatory bodies, including routine inspections and examinations, as well as enforcement inquiries and investigations. HBK has provided information to the SEC related to private investments in public equity and similar transactions and related trading activity. These transactions represent a small portion of HBK's overall business and are unrelated to its activities as Collateral Manager. HBK is listed, along with several other entities, in an SEC formal order of investigation related to these matters, and relevant personnel of HBK have given testimony. HBK believes the investigation is focused on insider trading issues related to trading before the public announcement of certain transactions and is one of many such investigations or inquiries directed toward numerous market participants, including brokerage firms, other intermediaries and investors. Based on interactions to date with the SEC staff and the limited scope of HBK's activities in this area, HBK does not believe the investigation will result in a material effect on HBK or have any financial effect on the Issuer or any of the private investment funds that HBK manages.

Biographies

Set forth below is information regarding certain persons who are currently employed by the Collateral Manager, although such persons may not necessarily continue to be so employed during the entire term of the Management Agreement and/or may not continue to perform services for the Collateral Manager under the Management Agreement.

Jamiel Akhtar, Managing Director

Mr. Akhtar has been associated with HBK since 1993 and is a Managing Director of HBK. Mr. Akhtar is primarily responsible for HBK's developed markets fixed income arbitrage portfolio, which includes investments in government and agency bonds, futures, interest rate derivatives, and mortgage and asset-backed securities. He received an A.B. degree cum laude in Economics in 1993 from Harvard College.

Kevin Jenks, Senior Portfolio Manager

Mr. Jenks has been associated with HBK since 2002 and is the firm's senior portfolio manager for the ABS, MBS and CMBS sectors. From 2000 to 2002, Mr. Jenks was a senior portfolio manager at Vanderbilt Capital Advisors, LLC specializing in the structured product fixed income market with a focus on structured credit securities. He was a senior member of a five person team responsible for managing over $6 billion in institutional fixed income portfolios for clients. From 1997 to 2000, Mr. Jenks was a portfolio manager with Prime Advisors, where he was responsible for the trading, investment strategy and management of a $3 billion plus fixed income portfolio consisting of total return funds and insurance company portfolios. In addition, he was also the firm's sector manager for structured product securities. Prior to 1997, Mr. Jenks held various trading, analyst and portfolio management positions at Bank

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Boston, The Boston Company Asset Management and Fidelity Investments. Mr. Jenks received a B.S. degree in Finance in 1992 from the University of Massachusetts.

Jason Lowry, Assistant Trader/Analyst

Mr. Lowry is an assistant trader/analyst with HBK. Jason oversees system analytics and surveillance. Prior to joining HBK Mr. Lowry was a quantitative analyst with Freddie Mac in fixed income research. Mr. Lowry received a B.S. degree in Physics from Carnegie Mellon in 2001.

Marco Lukesch

Mr. Lukesch is an analyst with HBK. Marco's primary responsibilities include surveillance and collateral analysis on new trades and existing positions. Prior to joining HBK Mr. Lukesch was a consultant with Oliver, Wyman & Co, a strategy consulting firm devoted to the financial services industry. Mr. Lukesch graduated magna cum laude from the University of Pennsylvania in 2001 receiving a B.S. from the Wharton School and a B.A. from the college.

Kimberlee K. Rozman, Associate General Counsel

Ms. Rozman has been associated with HBK since 1999 and is Associate General Counsel of HBK. Ms. Rozman is responsible for a range of HBK's legal matters. Prior to joining HBK Ms. Rozman was associated with Jackson & Walker L.L.P. Ms. Rozman received a J.D. degree summa cum laude from Dickinson Law School in 1990.

Gayla Utley, Director of Operations

Ms. Utley has been associated with HBK since 1996 and is responsible for global trading operations. Ms. Utley graduated from Texas A&M University in 1996 with a B.S. in Accounting.

Qi Wang

Ms. Wang has been associated with HBK since 1998 and is primarily responsible for the US fixed income arbitrage book. From 1996 to 1998, she worked on the US government sales desk at Lehman Brothers. She graduated magna cum laude from Yale University in 1995 with degrees in molecular biophysics & biochemistry and economics.

Brett Orr, CFA

Mr. Orr has been with HBK since 1997 and is responsible for financing all of HBK's government, asset backed and mortgage backed securities. He graduated with honors in 1997 from Abilene Christian University with a B.S. in Financial Management.

Jim Wang

Mr. Wang is a senior quantitative analyst with HBK. Jim's primary responsibilities include developing prepayment and default models to analyze mortgage pools. Prior to joining HBK, Mr. Wang was a quantitative analyst in ABS research at Citigroup. Mr. Wang graduated from Brandeis University with a Ph.D. in physics in 1996.

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THE MANAGEMENT AGREEMENT

The following summary describes certain provisions of the 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 Management Agreement.

As compensation for the performance of its obligations as Collateral Manager under the Management Agreement, the Collateral Manager will receive a fee (the **"Management Fee"**), to the extent of the funds available for such purpose in accordance with the Priority of Payments. The Management Fee will accrue from the Closing Date at a rate of 0.30% *per annum* on the Quarterly Asset Amount, payable in arrears on each Distribution Date. In addition, if the Collateral Manager acts as Auction Agent, as compensation for the performance of its obligations as Auction Agent under the Management Agreement, the Collateral Manager will receive fees (the **"Auction Agent Fees"**) as described in the succeeding sentence, to the extent of the funds available for such purpose in accordance with the Priority of Payments. The Auction Agent Fee will be (a) U.S.$[] on the first Auction Date; (b) if the Auction Call Redemption is not successful on the First Auction Call Date, U.S.$[] on the Distribution Date immediately following the First Auction Call Date; and (c) U.S.$[] on each Auction Date thereafter, if any. Any Management Fee or Auction Agent Fee accrued prior to the resignation or removal of the Collateral Manager will continue to be payable to the Collateral Manager on the Distribution Date immediately following the effectiveness of such resignation or removal.

To the extent not paid on any Distribution Date when due, any accrued Management Fee or Auction Agent Fee will be deferred and will be payable on the next subsequent Distribution Date on which funds are available for the payment thereof in accordance with the Priority of Payments. Any unpaid Management Fee or Auction Agent Fee that is deferred due to the operation of the Priority of Payments will not accrue interest.

The Collateral Manager will be responsible for its own ordinary expenses and costs incurred in the course of performing its obligations under the Management Agreement; *provided* that the Collateral Manager shall not be liable for the payment of any extraordinary expenses and costs or for the payment of expenses and costs of (a) legal advisers, accountants, consultants and other professionals retained by the Issuer or by the Collateral Manager on behalf of the Issuer in connection with certain services to be provided by the Collateral Manager as specified in the Management Agreement and (b) reasonable travel expenses undertaken in connection with effecting or directing Disposition of Underlying Assets and Eligible Investments, negotiating with issuers of Underlying Assets as to proposed modifications or waivers, taking action or advising the Trustee with respect to the Issuer's exercise of any rights or remedies in connection with the Underlying Assets and Eligible Investments, including in connection with an offer or default, participating in committees or other groups formed by creditors of an issuer of Underlying Assets. Such expenses will be paid by the Issuer.

The Collateral Manager will not be liable to the Issuers, the Trustee, the Noteholders, any Interest Rate Swap Counterparty or any of their respective affiliates, partners, shareholders, officers, directors, employees, consultants, agents, accountants and attorneys for any losses, damages, claims, liabilities, costs or expenses (including attorney's fees and expenses) incurred as a result of the actions taken or omitted or recommended by or on behalf of the Collateral Manager under the Management Agreement or the Indenture, except by reason of acts constituting bad faith, willful misconduct, gross negligence or reckless disregard of its duties and obligations thereunder. The Collateral Manager and its Affiliates and each of their respective partners, shareholders, members, officers, directors, managers, employees, consultants, agents, accountants and attorneys will be entitled to indemnification by the Issuer under

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certain circumstances (as specified in the Management Agreement), which will be paid in accordance with the Priority of Payments.

The Collateral Manager may not assign its rights or responsibilities under the Management Agreement without the consent of the Issuer and the holders of a majority in aggregate principal amount of Notes of the Controlling Class and upon satisfaction of the Rating Condition, except that pursuant to the Management Agreement the Collateral Manager may assign all of its rights and responsibilities thereunder (without thereby being relieved of any of its duties or obligations) to an Affiliate without the consent of the Issuer, the Trustee or any Noteholder. In addition, the Collateral Manager may, pursuant to the 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 shall not relieve the Collateral Manager from any of its duties or obligations thereunder.

The Collateral Manager may resign upon 60 days' prior written notice to the Issuer and the Trustee, *provided* that (a) no such resignation shall be effective unless a Replacement Manager is appointed as described below and (b) the Collateral Manager shall 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 Management Agreement would be a violation of such law or regulation.

The Management Agreement provides that the Collateral Manager may at any time be removed for "cause" (as defined in the Management Agreement) upon 15 Business Days' prior written notice by the Issuer, which will effect such removal at the direction of holders of at least 66 2/3% in aggregate outstanding principal amount of the holders of the Controlling Class (voting as a separate class) and the holders of at least 66 2/3% of Preference Shares. In determining whether a specified percentage of holders of Notes or Preference Shares has directed any such removal as described above or given any objection to a successor Collateral Manager as described below, Collateral Manager Securities will be excluded.

For purposes of the Management Agreement, "**cause**" means any of the following events:

(a) the Collateral Manager willfully breaches, or takes any action that it knows violates, any provision of the 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);

(b) the Collateral Manager breaches in any material respect any provision of the Management Agreement or any terms of the Indenture applicable to it and fails to cure such breach within 30 days after written notice of such failure is received by the Collateral Manager unless, if such failure is remediable, the Collateral Manager has taken action that the Collateral Manager in good faith believes will remedy, and that does in fact remedy, such failure within 90 days after written notice of such failure is received by the Collateral Manager;

(c) the Collateral Manager (i) ceases to be able to, or admits in writing its inability to, pay its debts when and as they become due, (ii) 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, (iii) makes an assignment for the benefit of its creditors, (iv) consents to the appointment of a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to

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any substantial part of its property or (v) is adjudicated as insolvent or is to be liquidated; or

(d) the occurrence of an act by the Collateral Manager that constitutes fraud or criminal activity in the performance of its obligations under the Management Agreement or the Collateral Manager being convicted for a criminal offense materially related to its investment advisory business.

No removal, termination or resignation of the Collateral Manager or termination of the Management Agreement shall be effective unless (a) a successor Collateral Manager (the **"Replacement Manager"**) has agreed in writing to assume all of the Collateral Manager's duties and obligations, including its duties and responsibilities as the Auction Agent, (b) the Replacement Manager is not objected to by holders of at least 66 2/3% in aggregate outstanding principal amount of any Class of Notes or the holders of at least 66 2/3% of the Preference Shares (excluding from such vote any Collateral Manager Securities) within 30 days after notice and (c) the Rating Condition has been satisfied with respect to the appointment of the Replacement Manager; *provided, however*, that at any time when an Event of Default shall have occurred and be continuing under the Indenture and the Collateral Manager shall have resigned or been removed under the circumstances set forth above, the holders of a Majority of the Notes of the Controlling Class may appoint a successor Collateral Manager (if the Rating Condition has been satisfied with respect to the appointment of the Replacement Manager).

In addition, no removal or resignation of the Collateral Manager while any Note or Preference Share is outstanding will be effective until the appointment by the Issuer of a Replacement Manager that is an established institution which (a) is legally qualified and has the capacity to act as Collateral Manager under the Management Agreement as successor to the Collateral Manager in the assumption of all of the responsibilities, duties and obligations of the Collateral Manager under the Management Agreement and under the applicable terms of the Indenture, including its duties and responsibilities as the Auction Agent, and (b) will not cause the Issuer or the pool of Collateral to become required to register as an investment company under the provisions of the Investment Company Act. The Indenture provides that if holders of at least 66 2/3% in aggregate outstanding principal amount of any Class of Notes or the holders of at least 66 2/3% of the Preference Shares (excluding from such votes the Collateral Manager Securities if the proposed Replacement Manager is an Affiliate of the Collateral Manager) object to a proposed Replacement Manager within 30 days after such notice (the **"First Period"**), the Trustee shall notify the holders of the Notes and Preference Shares that such Replacement Manager has been rejected. Such notice shall state that a Majority-in-Interest of Preference Shareholders may nominate a successor Collateral Manager within 60 days after the termination of the First Period (the **"Second Period"**) and specify a date (not more than 20 days after the end of the First Period), time and place for a meeting (which meeting may be held telephonically) at which the Preference Shareholders may nominate (if necessary, by a majority vote of the Preference Shareholders present at such meeting) not more than two proposed successor Collateral Managers (which proposed successor Collateral Managers shall meet the requirements of a Replacement Manager specified in the Management Agreement). The Trustee shall notify each Preference Shareholder and Noteholder of the successor Collateral Managers proposed at such meeting and request that each Preference Shareholder and Noteholder, by notice given to the Trustee not later than 20 days after such meeting, select a successor Collateral Manager (if there are two proposed successor Collateral Managers) or approve such proposed Collateral Manager (if only one successor Collateral Manager is proposed). If such a successor Collateral Manager is objected to by a Majority-in-Interest of Preference Shareholders or by the Holders of 66 2/3% in aggregate principal amount of any Class of Notes, the Trustee shall notify each Holder of a Preference Share of the failure to appoint a successor Collateral Manager and specify a date (prior to the end of the Second Period), time and place for a meeting (which meeting may be held telephonically) at which a Majority-in-Interest of the

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Preference Shareholders present (so long as holders of at least 66 2/3% of the Preference Shares are represented at such meeting) may appoint a successor Collateral Manager. The Collateral Manager Securities shall be excluded from the determination of whether 66 2/3% in aggregate principal amount of any Class of Notes or a Majority-in-Interest of Preference Shareholders for appointing or approving (or objecting to) a successor Collateral Manager has been obtained, except that for purposes of appointing or approving a successor Collateral Manager that is not an Affiliate of the Collateral Manager, the Notes and Preference Shares which are Collateral Manager Securities shall be included in determining whether the Noteholders and Preference Shareholders have selected or approved (or objected to) such successor Collateral Manager. In the event that a successor to the Collateral Manager is not appointed within 90 days after its resignation or removal, the Issuer or the Collateral Manager may petition a court to appoint a successor, without obtaining the approval of the Holders of the Notes and the Preference Shares.

Pursuant to the Indenture, the Trustee is entitled to exercise the rights and remedies of the Issuer under the 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 termination of the Collateral Manager in accordance with the Management Agreement or (c) upon a material default in the performance, or breach, of any covenant, representation, warranty or other agreement of the Issuer under the Indenture or in any certificate or writing delivered pursuant thereto or made in connection therewith which proves to be incorrect in any material respect when made if (i) holders of at least 50% in aggregate outstanding principal amount of the Notes of any Class, Preference Shareholders whose aggregate Voting Percentages are at least 50% of all Preference Shareholders' Voting Percentages or any Interest Rate Swap Counterparty gives notice of such default or breach to the Trustee and the Collateral Manager or (ii) the Collateral Manager, Issuer or Co-Issuer has actual knowledge of such default or breach, and in either case, such default or breach (if remediable) continues for a period of 30 days.

In certain circumstances, the interests of the Issuer and/or the holders of the Notes with respect to matters as to which the Collateral Manager is advising the Issuer may conflict with the interests of the Collateral Manager and its Affiliates. See "Risk Factors---Certain Conflicts of Interest."

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DEUTSCHE BANK AKTIENGESELLSCHAFT

Incorporation, Registered Office and Objectives

Deutsche Bank Aktiengesellschaft (**"Deutsche Bank"** or the **"Bank"**) originated from the reunification of Norddeutsche Bank Aktiengesellschaft, Hamburg, Rheinisch-Westfälische Bank Aktiengesellschaft, Duesseldorf and Süddeutsche Bank Aktiengesellschaft, Munich; pursuant to the Law on the Regional Scope of Credit Institutions, these had been disincorporated in 1952 from Deutsche Bank which was founded in 1870. The merger and the name were entered in the Commercial Register of the District Court Frankfurt am Main on 2 May 1957. Deutsche Bank is a banking institution and a stock corporation incorporated under the laws of Germany under registration number HRB 30 000. The Bank has its registered office in Frankfurt am Main, Germany. It maintains its head office at Taunusanlage 12, 60325 Frankfurt am Main and branch offices in Germany and abroad including in London, New York, Sydney, Tokyo and an Asia-Pacific Head Office in Singapore which serve as hubs for its operations in the respective regions.

Deutsche Bank is the parent company of a group consisting of banks, capital market companies, fund management companies, a real-estate finance company, installment financing companies, research and consultancy companies and other domestic and foreign companies (the **"Deutsche Bank Group"**).

The objects of Deutsche Bank, as laid down in its Articles of Association, include the transaction of all kinds of banking business, the provision of financial and other services and the promotion of international economic relations. The Bank may realize these objectives itself or through subsidiaries and affiliated companies. To the extent permitted by law, the Bank is entitled to transact all business and to take all steps which appear likely to promote the objectives of the Bank, in particular to acquire and dispose of real estate, to establish branches at home and abroad, to acquire, administer and dispose of participations in other enterprises, and to conclude company-transfer agreements.

Deutsche Bank AG, London Branch

"Deutsche Bank AG London" is the London branch of Deutsche Bank AG. On 12 January 1973, Deutsche Bank AG filed in the United Kingdom the documents required pursuant to section 407 of the Companies Act 1948 to establish a place of business within Great Britain. On 14 January 1993, Deutsche Bank registered under Schedule 21A to the Companies Act 1985 as having established a branch (Registration No. BR000005) in England and Wales. Deutsche Bank AG London is an authorized person for the purposes of section 19 of the Financial Services and Markets Act 2000. In the United Kingdom, it conducts wholesale banking business and through its Private Wealth Management division, it provides holistic wealth management advice and integrated financial solutions for wealthy individuals, their families and selected institutions.

Share Capital

As of 30 June 2006, Deutsche Bank's issued share capital amounted to Euro 1,329,684,136.96 consisting of 519,407,866 ordinary shares without par value. The shares are fully paid up and in registered form. The shares are listed for trading and official quotation on all the German Stock Exchanges. They are also listed on the Stock Exchanges in New York, Tokyo and Zurich. The Management Board has decided to pursue delisting on certain stock exchanges other than Germany and New York in order to benefit from the integration of financial markets. In respect of the stock exchanges in Amsterdam, Brussels, London, Luxembourg, Paris and Vienna, this decision was already completely implemented.

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Capitalization and Indebtedness of Deutsche Bank Group

As of 30 June 2006, Deutsche Bank Group's capitalization and indebtedness (unaudited) on the basis of United States Generally Accepted Accounting Principles (**"U.S. GAAP"**) was as follows:

	As of 30 June 2006
	(in Euro million)
Deposits	367,253
Trading liabilities	220,791
Central bank funds purchased and securities sold under repurchase agreements	184,282
Securities loaned	11,191
Other short-term borrowings	28,839
Other liabilities	91,087
Long-term debt	121,467
Obligation to purchase common shares	4,319
Total liabilities	**1,029,299**
Common shares, no par value, nominal value of Euro 2.56	1,330
Additional paid-in capital	14,581
Retained earnings	22,023
Common shares in treasury, at cost	(2,139)
Equity classified as obligation to purchase common shares	(4,319)
Accumulated other comprehensive income (loss)	
Deferred tax on unrealized net gains on securities available for sale relating to 1999 and 2000 tax rate changes in Germany	(2,164)
Unrealized net gains on securities available for sale, net of applicable tax and other	1,829
Unrealized net gains (losses) on derivatives hedging variability of cash flows, net of tax	(52)
Minimum pension liability, net of tax	(8)
Foreign currency translation, net of tax	(2,017)
Total accumulated other comprehensive loss	**(2,412)**
Total shareholders' equity	**29,064**
Total liabilities and shareholders' equity	**1,058,293**

There has been no material change in Deutsche Bank Group's capitalization and indebtedness since 30 June 2006.

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Management

In accordance with German law, Deutsche Bank has both a Supervisory Board (Aufsichtsrat) and a Management Board (Vorstand). These Boards are separate; no individual may be a member of both. The Supervisory Board appoints the members of the Management Board and supervises the activities of this Board. The Management Board represents Deutsche Bank and is responsible for its management of its affairs.

The Management Board consists of

Dr. Josef Ackermann	Chairman of the Management Board (Chief Executive Officer)
Dr. Hugo Banziger	Chief Risk Officer (CRO)
Anthony Di Iorio	Chief Financial Officer (CFO)
Dr. Tessen von Heydebreck	Chief Administrative Officer (CAO)
Hermann-Josef Lamberti	Chief Operating Officer (COO)

The Supervisory Board consists of the following 20 members:

Dr. Clemens Boersig	Chairman Frankfurt am Main
Heidrun Förster*	Deputy Chairperson Deutsche Bank Privat- und Geschäftskunden AG Berlin
Dr. Karl-Gerhard Eick	Deputy Chairman of the Board of Managing Directors of Deutsche Telekom AG Cologne
Ulrich Hartmann	Chairman of the Supervisory Board of E.ON AG Düsseldorf
Gerd Herzberg*	Vice President of ver.di Vereinte Dienstleistungsgewerkschaft Berlin
Sabine Horn*	Deutsche Bank AG Frankfurt am Main
Rolf Hunck*	Deutsche Bank AG Hamburg
Sir Peter Job	London
Prof. Dr. Henning Kagermann	Chairman and CEO of SAP AG Walldorf/Baden
Ulrich Kaufmann*	Deutsche Bank AG Düsseldorf

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Peter Kazmierczak*	Deutsche Bank AG Essen
Maurice Lévy	Chairman and Chief Executive Officer, Publicis Groupe S.A. Paris
Henriette Mark*	Deutsche Bank AG Munich
Dr. jur. Dr.-Ing. E.h. Heinrich von Pierer	Chairman of the Supervisory Board of Siemens AG Erlangen
Gabriele Platscher*	Deutsche Bank Privat- und Geschäftskunden AG Braunschweig
Karin Ruck*	Deutsche Bank AG Bad Soden am Taunus
Prof. Dr. Theo Siegert	Managing Director of the Haen Carstanjen & Söhne Düsseldorf
Tilman Todenhöfer	Managing Partner of Robert Bosch Industrietreuhand KG Stuttgart
Dipl.-Ing. Dr.-Ing. E.h. Jürgen Weber	Chairman of the Supervisory Board of Deutsche Lufthansa AG Hamburg
Leo Wunderlich*	Deutsche Bank AG Mannheim

* Elected by the staff in Germany.

The members of the Management Board accept membership on the Supervisory Boards of other corporations within the limits prescribed by law.

The business address of each member of the Management Board and of the Supervisory Board of Deutsche Bank is Taunusanlage 12, 60325 Frankfurt am Main, Germany.

Financial Year

The financial year of Deutsche Bank is the calendar year.

Auditors

The independent auditors of Deutsche Bank are KPMG Deutsche Treuhand Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (**"KPMG"**), Marie-Curie-Strasse 30, 60439 Frankfurt am Main, Germany. KPMG audited Deutsche Bank's non-consolidated financial statements for the years ended 31 December 2003, 2004 and 2005, which were prepared in accordance with the German

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Commercial Code (**"HGB"**). In accordance with § 292a HGB in the version effective until 9 December 2004 in connection with Article 2 of the Accounting Law Reform Act (Bilanzrechtsreformgesetz –BilReG) and Article 57 of the Introductory Act for the German Commercial Code (EGHGB), the consolidated financial statements for the years ended 31 December 2003, 2004 and 2005 were prepared in accordance with United States Generally Accepted Accounting Principles (**"U.S. GAAP"**) and audited by KPMG. In each case an unqualified auditor's certificate has been provided.

Set out below are the following:

- Consolidated Statement of Income as at 30 June 2006 and 30 June 2005;
- Consolidated Balance Sheet as at 30 June 2006 and 31 December 2005; and
- Liabilities and Shareholders' equity as at 30 June 2006 and 31 December 2005.

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Consolidated Statement of Income (unaudited)

Income Statement

in € m.	Three months ended Jun 30, 2006	Three months ended Jun 30, 2005	Six months ended Jun 30, 2006	Six months ended Jun 30, 2005
Interest revenues	15,493	11,468	27,976	20,376
Interest expense	13,623	9,855	24,504	17,320
Net interest revenues	1,870	1,613	3,474	3,056
Provision for loan losses	95	75	105	169
Net interest revenues after provision for loan losses	1,775	1,538	3,369	2,887
Commissions and fees from fiduciary activities	1,034	848	1,972	1,657
Commissions, broker's fees, mark-ups on securities underwriting and other securities activities	1,286	951	2,678	1,589
Fees for other customer services	830	553	1,287	1,160
Trading revenues, net	1,717	1,093	4,586	4,004
Net gains on securities available for sale	125	90	187	200
Net income from equity method investments	51	86	522	225
Other revenues	84	155	305	318
Total noninterest revenues	4,930	4,288	11,316	9,428
Compensation and benefits	3,088	2,640	6,712	5,838
Net occupancy expense of premises	250	258	509	503
Furniture and equipment	38	40	80	80
IT costs	371	373	744	760
Agency and other professional service fees	298	197	689	576
Communication and data services	153	145	311	292
Other expenses	583	643	1,198	1,192
Goodwill impairment/impairment of intangibles	–	–	–	–
Restructuring activities	57	116	99	284
Total noninterest expenses	4,838	4,412	10,213	9,116
Income before income tax expense and cumulative effect of accounting changes	1,867	1,414	4,472	3,197
Income tax expense	641	467	1,582	1,116
Reversal of 1999/2000 credits for tax rate changes	–	–	–	31
Income before cumulative effect of accounting changes, net of tax	1,226	947	2,890	2,050
Cumulative effect of accounting changes, net of tax	–	–	46	–
Net income	1,226	947	2,936	2,050

Earnings per Share (EPS)

in €	Three months ended Jun 30, 2006	Three months ended Jun 30, 2005	Six months ended Jun 30, 2006	Six months ended Jun 30, 2005
Earnings per common share:				
Basic:				
Income before cumulative effect of accounting changes, net of tax	2.74	2.04	6.41	4.40
Cumulative effect of accounting changes, net of tax[1]	–	–	0.10	–
Net income	2.74	2.04	6.51	4.40
Diluted:				
Income before cumulative effect of accounting changes, net of tax[2]	2.17	1.90	5.48	4.00
Cumulative effect of accounting changes, net of tax[2]	–	–	0.09	–
Net income	2.17	1.90	5.57	4.00
Number of shares in m.				
Denominator for basic earnings per share – weighted-average shares outstanding	446.8	463.8	450.8	465.7
Denominator for diluted earnings per share – adjusted weighted-average shares after assumed conversions	511.7	498.9	514.8	503.9

[1] Related to SFAS 123(R), the cumulative effect of accounting changes, net of tax, was € 0.09 on basic EPS and € 0.08 on diluted EPS for the six months ended June 30, 2006. Related to EITF 03-6, the cumulative effect of accounting changes, net of tax, was € 0.01 on basic and diluted EPS each for the six months ended June 30, 2006.

[2] Including normalized effect of assumed conversions. The effect for the three and six months ended June 30, 2006 was € (0.23) and € (0.13), respectively. The effect for the three and six months ended June 30, 2005 was € 0.00 and € (0.01), respectively.

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Consolidated Balance Sheet

Assets

in € m.	Jun 30, 2006 (unaudited)	Dec 31, 2005
Cash and due from banks	5,967	6,571
Interest-earning deposits with banks	17,309	11,965
Central bank funds sold and securities purchased under resale agreements	150,272	130,993
Securities borrowed	105,955	101,125
Bonds and other fixed-income securities	271,391	260,469
Equity shares and other variable-yield securities	92,824	99,479
Positive market values from derivative financial instruments	76,096	75,354
Other trading assets	13,431	13,091
Total trading assets	455,542	448,393
Securities available for sale	21,640	21,075
Other investments	4,380	7,382
Loans, net	183,956	151,355
Premises and equipment, net	4,791	5,079
Goodwill	6,779	7,046
Other intangible assets, net	1,156	1,156
Other assets	119,444	90,382
Total assets	1,085,283	993,161

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Liabilities and Shareholders' Equity

in € m.	Jun 30, 2006 (unaudited)	Dec 31, 2005
Noninterest-bearing deposits	27,533	33,005
Interest-bearing deposits	339,720	350,782
Total deposits	367,253	383,787
Bonds and other fixed-income securities	88,370	81,264
Equity shares and other variable-yield securities	33,224	28,473
Negative market values from derivative financial instruments	91,188	84,560
Total trading liabilities	220,781	194,347
Central bank funds purchased and securities sold under repurchase agreements	184,282	143,524
Securities loaned	11,193	24,581
Other short-term borrowings	28,639	20,549
Other liabilities	91,087	81,377
Long-term debt	121,467	113,654
Obligation to purchase common shares	4,319	3,606
Total liabilities	**1,029,229**	**862,225**
Common shares, no par value, nominal value of € 2.56	1,330	1,420
Additional paid-in capital	14,581	11,672
Retained earnings	22,023	22,628
Common shares in treasury, at cost	(2,138)	(3,368)
Equity classified as obligation to purchase common shares	(4,319)	(3,606)
Share awards	–	2,131
Accumulated other comprehensive income (loss)		
Deferred tax on unrealized net gains on securities available for sale relating to 1995 and 2000 tax rate changes in Germany	(2,164)	(2,164)
Unrealized net gains on securities available for sale, net of applicable tax and other	1,829	2,498
Unrealized net gains (losses) on derivatives hedging variability of cash flows, net of tax	(52)	9
Minimum pension liability, net of tax	(8)	(8)
Foreign currency translation, net of tax	(2,017)	(1,366)
Total accumulated other comprehensive loss	(2,412)	(1,031)
Total shareholders' equity	**29,064**	**29,936**
Total liabilities and shareholders' equity	**1,058,293**	**892,161**

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Litigation

Other than set out herein Deutsche Bank is not, or during the last two financial years has not been involved (whether as defendant or otherwise) in, nor does it have knowledge of any threat of any legal, arbitration, administrative or other proceedings the result of which may have, in the event of an adverse determination, a significant effect on its financial condition presented in this Offering Circular.

IPO Allocation Litigation

Deutsche Bank Securities Inc. (**"DBSI"**) and its predecessor firms, along with numerous other securities firms, have been named as defendants in over 80 putative class action lawsuits pending in the United States District Court for the Southern District of New York. These lawsuits allege violations of securities and antitrust laws in connection with the allocation of shares in a large number of initial public offerings (**"IPOs"**) by issuers, officers and directors of issuers, and underwriters of those securities. DBSI is named in these suits as an underwriter. The securities cases allege material misstatements and omissions in registration statements and prospectuses for the IPOs and market manipulation with respect to aftermarket trading in the IPO securities. Among the allegations are that the underwriters tied the receipt of allocations of IPO shares to required aftermarket purchases by customers and to the payment of undisclosed compensation to the underwriters in the form of commissions on securities trades, and that the underwriters caused misleading analyst reports to be issued. The antitrust claims allege an illegal conspiracy to affect the stock price based on similar allegations that the underwriters required aftermarket purchases and undisclosed commissions in exchange for allocation of IPO stocks. In the securities cases, the motions to dismiss the complaints of DBSI and others were denied on February 13, 2003. Plaintiffs' motion to certify six "test" cases as class actions in the securities cases was granted on October 13, 2004, and DBSI and other defendants appealed that decision to the Court of Appeals for the Second Circuit. Discovery in the securities cases is underway. In the putative antitrust class action, the defendants' motion to dismiss the complaint was granted on November 3, 2003. On September 28, 2005 the Court of Appeals for the Second Circuit vacated the ruling and remanded the case to the lower court for consideration of alternate grounds for dismissal. Defendants have moved for reconsideration by the Second Circuit.

Enron Litigation

Deutsche Bank AG and certain of its affiliates are collectively involved in more than 10 lawsuits arising out of their banking relationship with Enron Corp., its subsidiaries and certain Enron-related entities (**"Enron"**). These lawsuits include a series of purported class actions brought on behalf of shareholders of Enron, including the lead action captioned *Newby v. Enron Corp.* The consolidated complaint filed in Newby named as defendants, among others, Deutsche Bank AG, several other investment banking firms, a number of law firms, Enron's former accountants and affiliated entities and individuals and other individual defendants, including present and former officers and directors of Enron, and it purported to allege claims against Deutsche Bank AG under federal securities laws. On June 5, 2006, the Court dismissed all of the claims alleged in the *Newby* action against Deutsche Bank AG and its affiliates. On June 21, 2006, Lead Plaintiff in *Newby* filed a motion requesting the Court to reconsider the dismissal of Deutsche Bank AG and its affiliates from *Newby*.

Also, an adversary proceeding has been brought by Enron in the bankruptcy court against, among others, Deutsche Bank AG and certain of its affiliates. In this adversary proceeding, Enron seeks damages from the Deutsche Bank entities, as well as the other defendants, for alleged aiding and abetting breaches of fiduciary duty by Enron insiders, aiding and abetting fraud and unlawful civil conspiracy, and also seeks return of alleged fraudulent conveyances and preferences and equitable subordination of their claims in the Enron bankruptcy. The Deutsche Bank entities' motion to partially dismiss the adversary complaint is pending.

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In addition to Newby and the adversary proceeding described above, there are third-party actions and individual and putative class actions brought in various courts by Enron investors and creditors alleging federal and state law claims against Deutsche Bank AG and certain of its affiliates.

WorldCom Litigation

Deutsche Bank AG and DBSI were defendants in more than 40 actions filed in federal and state courts arising out of alleged material misstatements and omissions in the financial statements of WorldCom Inc. DBSI was a member of the syndicate that underwrote WorldCom's May 2000 and May 2001 bond offerings, which are among the bond offerings at issue in the actions. Deutsche Bank AG, London branch was a member of the syndicate that underwrote the sterling and euro tranches of the May 2001 bond offering. Plaintiffs were alleged purchasers of these and other WorldCom debt securities. The defendants in the various actions included certain WorldCom directors and officers, WorldCom's auditor and members of the underwriting syndicates for the debt offerings. Plaintiffs alleged that the offering documents contained material misstatements and/or omissions regarding WorldCom's financial condition. The claims against DBSI and Deutsche Bank AG were made under federal and state statutes (including securities laws), and under various common law doctrines. The largest of the actions against Deutsche Bank AG and DBSI was a class action litigation in the U.S. District Court in the Southern District of New York, in which the class plaintiffs are the holders of a significant majority of the bonds at issue. On March 10, 2005, Deutsche Bank AG and DBSI reached a settlement agreement, subject to court approval, resolving the class action claims asserted against them, for a payment of approximately US$325 million. The settlement of the class action claims did not resolve the individual actions brought by investors who chose to opt out of the federal class action. The financial effects of the class action settlement are reflected in our 2004 consolidated financial statements. All but three of the individual actions have been resolved.

Tax-Related Products

Deutsche Bank AG, along with certain affiliates and employees (collectively referred to as **"Deutsche Bank"**), have collectively been named as defendants in more than 75 legal proceedings brought by customers in various tax-oriented transactions. Deutsche Bank provided financial products and services to these customers, who were advised by various accounting, legal and financial advisory professionals. The customers claimed tax benefits as a result of these transactions, and the United States Internal Revenue Service has rejected those claims. In these legal proceedings, the customers allege that, together with Deutsche Bank, the professional advisors improperly misled the customers into believing that the claimed tax benefits would be upheld by the Internal Revenue Service. The legal proceedings are pending in numerous state and federal courts and in arbitration, and claims against Deutsche Bank are alleged under both U.S. state and federal law. Many of the claims against Deutsche Bank are asserted by individual customers, while others are asserted on behalf of a putative customer class. No litigation class has been certified as against Deutsche Bank. The legal proceedings are currently at various pre-trial stages, including discovery.

The United States Department of Justice (**"DOJ"**) is also conducting a criminal investigation of tax-oriented transactions that were executed from approximately 1997 through 2001. In connection with that investigation, DOJ has sought various documents and other information from Deutsche Bank and has been investigating the actions of various individuals and entities, including Deutsche Bank, in such transactions. In the latter half of 2005, DOJ brought criminal charges against numerous individuals based on their participation in certain tax-oriented transactions while employed by entities other than Deutsche Bank. In the latter half of 2005, DOJ also entered into a Deferred Prosecution Agreement with an accounting firm (the **"Accounting Firm"**), pursuant to which DOJ agreed to defer prosecution of a criminal charge against the Accounting Firm based on its participation in certain tax-oriented transactions *provided* that the Accounting Firm satisfied the terms of the Deferred Prosecution Agreement. On February 14, 2006, DOJ announced that it had entered into a Deferred Prosecution Agreement with a financial institution (the **"Financial Institution"**), pursuant to which DOJ agreed to defer prosecution of a criminal charge against the Financial Institution based on its role in providing financial products and services in connection with certain tax-oriented transactions *provided* that the Financial Institution

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satisfied the terms of the Deferred Prosecution Agreement. Deutsche Bank provided similar financial products and services in certain tax-oriented transactions that are the same or similar to the tax-oriented transactions that are the subject of the above-referenced criminal charges. Deutsche Bank also provided financial products and services in additional tax-oriented transactions as well. DOJ's criminal investigation is on-going.

In the Matter of KPMG LLP Certain Auditor Independence Issues

On November 20, 2003, the SEC requested Deutsche Bank to produce certain documents in connection with an ongoing investigation of certain auditor independence issues relating to KPMG LLP. Deutsche Bank is cooperating with the SEC in its inquiry. KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (**"KPMG DTG"**), a KPMG LLP affiliate, is Deutsche Bank's auditor. Aspects of this investigation appear to involve certain tax-oriented transactions among those at issue in the tax-related litigation described above, where Deutsche Bank provided financial products and services and a KPMG LLP affiliate advised the investors. During all relevant periods, including the present, KPMG DTG has confirmed to Deutsche Bank that KPMG DTG was and is "independent" from Deutsche Bank under applicable accounting and SEC regulations.

Kirch Litigation

In May 2002, Dr Leo Kirch personally and as an assignee initiated legal action against Dr Breuer and Deutsche Bank AG alleging that a statement made by Dr Breuer (then the Spokesman of Deutsche Bank's Management Board) in an interview with Bloomberg television on February 4, 2002 regarding the Kirch Group was in breach of laws and financially damaging to Kirch. On January 24, 2006 the German Federal Supreme Court sustained the action for the declaratory judgment only in respect of the claims assigned by the PrintBeteiligungs GmbH. Such action does not require a proof of any loss caused by the statement made in the interview. PrintBeteiligungs GmbH is the only company of the Kirch Group which was a borrower of Deutsche Bank. Claims by Kirch personally and by the group holding company, TaurusHolding GmbH & Co. KG, were dismissed. To be awarded a judgment for damages against Deutsche Bank AG, Dr Kirch would have to file a new lawsuit; in such proceedings he would have to prove that the statement caused financial damages to PrintBeteiligungs GmbH and the amount thereof.

In 2003, Dr Kirch instituted legal action in the Supreme Court of the State of New York in which he seeks the award of compensatory and punitive damages based upon Dr Breuer's interview. Upon introduction of additional plaintiffs and defendants and referral to the U.S. District Court for the Southern District of New York, the case was dismissed on September 24, 2004. The plaintiffs appealed this decision. On June 5, 2006, the U.S. Court of Appeals for the Second Circuit partly confirmed the dismissal of the claims and otherwise remanded the case to the court of first instance to decide for the remaining claims the issues of forum non conveniens or res judicata.

On December 31, 2005, the KGL Pool GmbH filed a lawsuit against Deutsche Bank and Dr Breuer. The lawsuit is based on alleged claims assigned from various subsidiaries of the former Kirch Group. The KGL Pool GmbH is also a plaintiff in the above mentioned case in the USA and seeks a declaratory judgment to the effect that Deutsche Bank AG and Dr Breuer are jointly and severally liable for damages as a result of the interview statement and the behaviour of Deutsche Bank in respect of several subsidiaries of the Kirch Group.

Philipp Holzmann AG

Philipp Holzmann AG (**"Holzmann"**) is a major German construction firm which filed for insolvency in March 2002. Deutsche Bank had been a major creditor bank and holder of an equity interest of Holzmann for many decades, and, from April 1997 until April 2000, a former member of Deutsche Bank AG's Management Board was the Chairman of its Supervisory Board. When Holzmann had become insolvent at the end of 1999, a consortium of banks led by Deutsche Bank participated in late 1999 and early 2000 in a restructuring of Holzmann that included the banks' extension of a credit facility, participation in a capital increase and exchange of debt into convertible bonds. In March 2002, Holzmann

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and several of its subsidiaries, including in particular Imbau Industrielles Bauen GmbH ("**Imbau**"), filed for insolvency. As a result of this insolvency, the administrators for Holzmann and for Imbau and a group of bondholders have informed Deutsche Bank they are asserting claims against it because of its role as lender to the Holzmann group prior to and after the restructuring and as leader of the consortium of banks which supported the restructuring. The purported claims include claims that amounts repaid to the banks constituted voidable preferences that should be returned to the insolvent entities and claims of lender liability resulting from the banks' support for an allegedly infeasible restructuring. Although Deutsche Bank is in ongoing discussions, it cannot exclude that some of the parties may file lawsuits against it. To date, the administrator for Imbau filed a lawsuit against Deutsche Bank in August 2004 alleging that payments received by Deutsche Bank in respect of a loan made to Imbau in 1997 and 1998 and in connection with a real estate transaction that was part of the restructuring constituted voidable preferences that should be returned to the insolvent entity. Several bondholders filed a lawsuit against Deutsche Bank in December 2005 seeking damages because of its allegedly unlawful support of Holzmann's 1999/2000 restructuring. Additionally, Gebema N.V. filed a lawsuit in 2000 seeking damages against Deutsche Bank alleging deficiencies in the offering documents based on which Gebema N.V. had invested in equity and convertible bonds of Holzmann in 1998.

Parmalat Litigation

Following the bankruptcy of the Italian company Parmalat, the Special Administrator of Parmalat, Mr. Enrico Bondi, is suing Deutsche Bank for damages totaling EUR2.199 billion for facilitating the insolvency offence of delaying the filing of a petition in insolvency allegedly committed by Parmalat's former management and supervisory board. There are two separate complaints and they allege that by managing and/or underwriting the issuance of Parmalat bonds in 2003 and entering into certain derivative transactions, Deutsche Bank assisted Parmalat by providing liquidity in order to enable Parmalat to meet its short term liabilities/obligations. It is alleged that Deutsche Bank knowingly helped Parmalat to continue its business for several months until December 2003, despite being aware of the true financial situation that the company was in. Parmalat reserves the right to increase the amount of damages sought. The damages currently requested are, it is claimed, equal to the loss creditors of Parmalat incurred in the second half of 2003.

Also in connection with the Parmalat insolvency, Mr. Bondi has already brought two claw back actions against Deutsche Bank SpA.

General

Due to the nature of its business, Deutsche Bank and its subsidiaries are involved in litigation, arbitration and regulatory proceedings in Germany and in a number of jurisdictions outside Germany, including the United States, arising in the ordinary course of its businesses. Such matters are subject to many uncertainties, and the outcome of individual matters is not predictable with assurance. Although the final resolution of any such matters could have a material effect on Deutsche Bank's consolidated operating results for a particular reporting period, the Bank believes that it should not materially affect its consolidated financial position.

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TAX CONSIDERATIONS

United States Tax Considerations

General

To ensure compliance with Internal Revenue Service Circular 230, investors are hereby notified that: (a) any discussion of U.S. federal tax issues contained or referred to in this Offering Circular is not intended or written to be used, and cannot be used, by investors for the purpose of avoiding penalties that may be imposed on them under the Code; (b) such discussion is written to support the promotion or marketing of the transactions or matters addressed herein; and (c) prospective investors should seek advice based on their particular circumstances from an independent tax adviser.

The following is a summary of certain of the United States federal income tax consequences of an investment in the Notes by purchasers that acquire their Notes in the initial offering. The discussion and the opinions referenced below are based upon laws, regulations, rulings, and decisions currently in effect, all of which are subject to change, possibly with retroactive effect. Prospective investors should note that no rulings have been or are expected to be sought from the Internal Revenue Service (the "**IRS**") with respect to any of the United States federal income tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions. Further, the following summary does not deal with all United States federal income tax consequences applicable to any given investor, nor does it address the United States federal income tax considerations applicable to all categories of investors, some of which may be subject to special rules, such as Non-U.S. Holders (defined below), financial institutions, REITs, RICs, insurance companies, tax-exempt organizations, dealers or traders in securities, currencies or notional principal contracts, persons that own (or are deemed to own) [10]% or more of the voting shares (or interests treated as equity) of the Issuer, partnerships, pass-through entities or persons who hold the Notes through partnerships or pass-through entities, S corporations, estates and trusts, investors that hold their Notes as part of a hedge, straddle, synthetic security or an integrated or conversion transaction, or investors whose "functional currency" is not the U.S. dollar. Furthermore, it does not address alternative minimum tax consequences, or the indirect effects on investors of equity interests in either a U.S. Holder (as defined below) or a Non-U.S. Holder. In addition, this summary is generally limited to investors that will hold their Notes as "capital assets" within the meaning of Section 1221 of the Code. Investors should consult their own tax advisors to determine the United States federal, state, local, and other tax consequences of the purchase, ownership, and disposition of the Notes.

As used herein, "**U.S. Holder**" or means a beneficial holder of a Note that is an individual citizen or resident of the United States for United States federal income tax purposes, a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), an estate the income of which is subject to United States federal income taxation regardless of its source, or a trust for which a court within the United States is able to exercise primary supervision over its administration and for which one or more United States persons (as defined in the Code) have the authority to control all of its substantial decisions or a trust that has made a valid election under U.S. Treasury Regulations to be treated as a domestic trust. "**Non-U.S. Holder**" means any holder (or beneficial holder) of a Note that is not a U.S. Holder. If a partnership holds Notes, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. Partners of partnerships holding Notes should consult their own tax advisors.

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U.S. Federal Income Tax Consequences to the Issuer

Upon the issuance of the Notes, Allen & Overy LLP, special U.S. tax counsel to the Issuer, will deliver an opinion generally to the effect that under current law, and assuming compliance with the Indenture (and certain other documents) and based on certain factual representations made by the Issuer and the Collateral Manager, although the matter is not free from doubt, the Issuer will not be engaged in the conduct of a trade or business in the United States. Accordingly, the Issuer does not expect to be subject to net income taxation in the United States. Prospective investors should be aware that opinions of counsel are not binding on the IRS and there can be no absolute assurance that the IRS will not seek to treat the Issuer as engaged in a U.S. trade or business. If the IRS were to successfully characterize the Issuer as engaged in such a trade or business, among other consequences, the Issuer would be subject to net income taxation in the United States (as well as the branch profits tax) on its income. The levying of such taxes would materially affect the Issuer's financial ability to pay principal and interest on the Notes.

The Issuer intends to acquire the Underlying Assets, the interest on which, and any gain from the Disposition thereof, is expected not to be subject to United States federal withholding tax or withholding tax imposed by other countries (unless subject to being "grossed up"). The Issuer will not, however, make any independent investigation of the circumstances surrounding the issuance of the individual assets comprising the Underlying Assets and, thus, there can be no absolute assurance that in every case, payments will be received free of withholding tax. If the Issuer is a CFC (defined below), the Issuer would incur United States withholding tax on interest received from a related United States person.

In addition, it is not expected that the Issuer will derive material amounts of any other items of income that will be subject to United States withholding taxes.

If withholding or deduction of any taxes from payments is required by law in any jurisdiction, the Issuer shall be under no obligation to make any additional payments to any holder in respect of such withholding or deduction.

Notwithstanding the foregoing, any commitment fee, facility fee and similar fee that the Issuer earns may be subject to a 30% withholding tax and any lending fees received under a securities lending agreement may also be subject to withholding tax.

Classification of the Notes

The Issuer has agreed and, by its acceptance of a Note, each Noteholder will be deemed to have agreed, to treat each of the Notes as debt of the Issuer for United States federal income tax purposes, unless required by law. Upon the issuance of the Notes, Allen & Overy LLP will deliver an opinion generally to the effect that assuming compliance with the Indenture (and certain other documents) and based on certain factual representations made by the Issuer and the Initial Purchaser, the Notes, when issued, will be characterized as debt of the Issuer for United States federal income tax purposes. Prospective investors should be aware that opinions of counsel are not binding on the IRS, and there can be no assurance that the IRS will not seek to characterize any Class of Notes as other than indebtedness. Except as provided under "—Alternative Characterization of the Notes," below, the balance of this discussion assumes that the Notes will be characterized as debt of the Issuer for United States federal income tax purposes unless required by law.

For United States federal income tax purposes, the Issuer, and not the Co-Issuer, will be treated as the Issuer of the Notes.

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Payments of Interest on the Notes.

Generally, stated interest on a Note that is considered "unconditionally payable" (as described below) will be ordinary income taxable to a U.S. Holder when received or accrued in accordance with such U.S. Holder's method of accounting for U.S. federal income tax purposes. Such interest income will be treated as foreign source income for foreign tax credit purposes. If the "stated redemption price at maturity" (**"SRPM"**) of a Note exceeds the "issue price" of such Note by more than a "de minimis amount," then the excess of SRPM over the issue price may constitute original issue discount (**"OID"**). The SRPM of a debt instrument is generally the sum of all payments provided by the debt instrument other than "qualified stated interest" payments. The issue price is the first price at which a substantial amount of a debt instrument is sold to the public. The de minimis amount is any amount less than one-fourth of one percent of a debt instrument's SRPM multiplied by the number of complete years to maturity. Qualified stated interest is generally interest paid on a debt instrument that is unconditionally payable at least annually at a single fixed rate.

The Treasury Regulations provide that, for purposes of determining whether a debt instrument is issued with OID, stated interest must be included in the SRPM of the debt instrument if such interest is not "unconditionally payable." Interest is considered "unconditionally payable" if reasonable legal remedies exist to compel timely payment or terms and conditions of the debt instrument make the likelihood of late payment (other than late payment that occurs within a reasonable grace period) or non-payment (ignoring the possibility of non-payment due to default, insolvency or similar circumstances) a remote contingency. The Issuer intends, pursuant to its interpretation of the foregoing rules, to take the position that payments of interest on the Class A-1 Notes, Class A-2 Notes and Class B Notes are considered unconditionally payable, and thus not included in the SRPM of such Class A-1 Notes, Class A-2 Notes and Class B Notes and should be treated as "qualified stated interest". Because the interest payments on the Class C Notes, Class D Notes and Class E Notes are subject to deferral (and the possibility of such deferral may not be remote within the meaning of the Treasury Regulations), the Issuer intends to take the position that all interest (including interest on accrued but unpaid interest) payable on the Class C Notes, Class D Notes and Class E Notes should be included in the SRPM and should be treated as issued with OID. However, because there is no authority addressing when the likelihood of a contingency such as the deferral of interest should be considered not "remote", there can be no assurance the IRS will agree with this position.

The U.S. federal income tax treatment of the Class C Notes, the Class D Notes and the Class E Notes under the OID rules is uncertain. If the Class C Notes, the Class D Notes and the Class E Notes are issued at an issue price equal to their principal amount, the Issuer intends not to calculate OID under the PAC Method referred to below, and instead to take the position that the amount of OID that accrued on such Class C Notes, Class D Notes and Class E Notes in each accrual period is equal to the amount of interest (including any Deferred Interest with respect to the Class C Notes, the Class D Notes and the Class E Notes) that accrues on such Class C Notes, Class D Notes and Class E Notes during such period. Unless the Class C Notes, the Class D Notes and the Class E Notes are issued at an issue price equal to their principal amount, in including stated interest in the SRPM of the Class C Notes, the Class D Notes and the Class E Notes, the Issuer intends, absent definitive guidance, to treat the Class C Notes, the Class D Notes and the Class E Notes as subject to an income accrual method analogous to the methods applicable to debt instruments having payments that are contingent as to amount but not as to time and debt instruments whose payments are subject to acceleration (prescribed by section 1272(a)(6) of the Code) using an assumption as to the expected prepayments on the Class C Notes, the Class D Notes and the Class E Notes (the **"PAC Method"**). As such, accruals of any such additional OID will generally be based upon the weighted average life of such Class C Notes, Class D Notes and Class E Notes rather than the stated maturity. Prospective investors should consult their own tax advisors

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regarding the application of the OID rules to the Class C Notes, the Class D Notes and the Class E Notes and the tax characterization and treatment of payments on such Notes.

Sale, Exchange or Retirement of the Notes.

A U.S. Holder's tax basis in a Note will generally equal its cost, plus any accrued OID, reduced by the amount of any payments received by the U.S. Holder with respect to a Note that are not qualified stated interest payments as described above. A U.S. Holder will generally recognize gain or loss on the sale, exchange or retirement of a Note equal to the difference between the amount realized and the tax basis of the Note. That gain or loss will be a capital gain or loss and generally will be treated as from sources within the United States. Prospective investors should consult their own tax advisors with respect to the treatment of capital gains (which may be taxed at lower rates than ordinary income for taxpayers that are individuals, trusts or estates and that held a Senior Debt Note for more than one year) and capital losses (the deductibility of which is subject to limitations).

If any Class of Notes were considered "contingent payment debt instruments" (**"CPDIs"**) within the meaning of Treasury Regulation section 1.1275-4, then, among other consequences, gain on the sale of such Notes that might otherwise be capital gain would be ordinary income. Although the Issuer does not intend to treat the Notes as CPDIs, prospective investors should consult their own tax advisors regarding the possible characterization of the Notes as CPDIs.

Alternative Characterization of the Notes

Notwithstanding tax counsel's opinion, U.S. Holders should recognize that there is some uncertainty regarding the appropriate classification of instruments such as the Notes. It is possible, for example, that the IRS may contend that a Class of the Notes should be treated as equity interests (or as part-debt, part-equity) in the Issuer. Such a recharacterization might result in materially adverse tax consequences to U.S. Holders.

If U.S. Holders of a Class of Notes were treated as owning equity interests in the Issuer, interest payments would be treated as dividends (to the extent of current and accumulated earnings). Further, while not certain, interest on the Notes might accrue (as dividends) prior to payment in a manner akin to the accrual of OID. No dividends received deduction would apply to any of those dividends.

Further, the Issuer is a passive foreign investment company, or PFIC. If U.S. Holders were treated as owning equity interests in the Issuer, U.S. Holders generally will be considered United States shareholders in a PFIC. Under the rules relating to PFICs, a United States shareholder of a PFIC that receives an "excess distribution" must allocate the excess distribution ratably to each day in the taxpayer's holding period for such equity, and must pay a deemed deferred tax amount with respect to each prior year in the taxpayer's holding period. The total excess distribution for any taxable year is the excess of (a) the total distributions for the year over (b) 125 percent of the average amount received in respect of such stock by the taxpayer during the three preceding years (or, if shorter, the U.S. Holder's holding period for such equity). In addition, any gain on the disposition of such equity in a PFIC would be treated as though it were an excess distribution. The deferred tax amount is equal to the sum of (a) the aggregate increases in taxes (computed at the maximum marginal rate) for each year in the taxpayer's holding period before the current year that would result from allocating the excess distributions back over the taxpayer's holding period ratably and (b) interest on those increases.

In order to avoid the application of the PFIC rules, each U.S. Holder should consider making (and consult with its tax advisors regarding the effectiveness and usefulness of making) a qualified electing fund election (the **"QEF election"**) provided in Section 1295 of the Code on a "protective" basis (although

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such protective election may not be respected by the IRS because current regulations do not specifically authorize that particular election). In general, a QEF election should be made on or before the due date for filing a U.S. Holder's federal income tax return for the first taxable year for which it held a Note. In lieu of the PFIC rules discussed above, a U.S. Holder that makes a valid QEF election with respect to a Note that is recharacterized as an equity interest in the Issuer will, in very general terms, be required to include its *pro rata* share of the Issuer's ordinary income and net capital gains (unreduced by any prior year losses) in income as ordinary income and long-term capital gain, respectively, for each taxable year and pay tax thereon (even if the amount of that income is not the same as the interest payment, if any, made or OID, if any accruing, on the Note during that period). In general, however, payments of interest on the Note that reflect income on which the U.S. Holder has already paid taxes under the QEF election, will not be further taxable to the U.S. Holder. While there can be no assurance that the IRS would respect the following allocation, the Issuer intends to allocate such ordinary income and net capital gains in a manner designed to cause any Class of Notes that is recharacterized as equity in the Issuer to have approximately the same amount of income as would have accrued on that Class had it been respected as debt.

In the event that any Class of Notes is recharacterized as voting equity in the Issuer and certain other conditions are met, the Issuer may be classified as a controlled foreign corporation (a "**CFC**") with respect to U.S. Holders that own at least 10% of the Issuer's voting equity. In such event, Noteholders would, in general, be taxed in a similar manner as if they had made the QEF election described above (although some income that would otherwise be capital, may be ordinary).

Information Reporting Requirements

Under United States federal income tax law and regulations, certain categories of U.S. Holders must file information returns with respect to their investment in, or involvement in, a foreign corporation. These reporting requirements apply to both taxable and tax-exempt U.S. Holders. Penalties for failure to file certain of these information returns are severe. Purchasers of the Notes should consult with their own tax advisors regarding the necessity of filing information returns.

If requested by the Issuer, each holder will be required to provide the Issuer with the name and status of each beneficial owner of a Note that is a U.S. Holder.

Non-U.S. Holders

Assuming that (i) the Notes are treated as debt of a non-United States corporation or (ii) if the Notes are treated as equity in a non-United States corporation, that such corporation is not engaged in a U.S. trade or business, a Non-U.S. Holder of a Note that has no connection with the United States and is not related, directly or indirectly, with the Issuer or the holders of the Issuer's equity or the Preferred Shares, will not be subject to U.S. withholding tax on interest payments. Non-U.S. Holders may be required to make certain tax representations regarding the identity of the beneficial owner of the Notes in order to receive payments free of withholding.

Backup Withholding and Information Reporting

Backup withholding and information reporting requirements may apply to certain payments on the Notes (including OID, if any) and proceeds of the sale, exchange, redemption or other disposition of the Notes to U.S. Holders. The Issuer, its agent, a broker, or any paying agent, as the case may be, may be required to withhold tax from any payment that is subject to backup withholding if the U.S. Holder fails to furnish the U.S. Holder's taxpayer identification number (typically by providing a completed and executed IRS Form W-9), to certify that such U.S. Holder is not subject to backup withholding, or to otherwise

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comply with the applicable requirements of the backup withholding rules. Certain U.S. Holders (including, among others, corporations) are not subject to the backup withholding and information reporting requirements. Non-U.S. Holders may be required to comply with applicable certification procedures to establish that they are not U.S. Holders in order to avoid the application of such information reporting requirements and backup withholding. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to a holder generally may be claimed as a credit against such holder's U.S. federal income tax liability, *provided* that the required information is timely furnished to the IRS. Prospective investors in the Notes should consult their own tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

IRS Disclosure Reporting Requirements

Recently promulgated U.S. Treasury Regulations (the **"Disclosure Regulations"**) meant to require the reporting of certain tax shelter transactions (**"Reportable Transactions"**) could be interpreted to cover transactions generally not regarded as tax shelters. Under the Disclosure Regulations it may be possible that certain transactions with respect to the Notes may be characterized as Reportable Transactions requiring a holder to disclose such transaction, such as a sale, exchange, retirement or other taxable disposition of a Note that results in a loss that exceeds certain thresholds and other specified conditions are met. Prospective investors in the Notes should consult with their own tax advisers to determine the tax return obligations, if any, with respect to an investment in the Notes, including any requirement to file IRS Form 8886 (Reportable Transaction Statement).

THE U.S. FEDERAL INCOME TAX DISCUSSION SET FORTH ABOVE IS INCLUDED FOR GENERAL INFORMATION ONLY AND MAY NOT BE APPLICABLE DEPENDING UPON A NOTEHOLDER'S PARTICULAR SITUATION. PROSPECTIVE INVESTORS IN THE NOTES SHOULD CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE NOTES, INCLUDING THE TAX CONSEQUENCES UNDER STATE, LOCAL, NON-U.S. AND OTHER TAX LAWS AND THE POSSIBLE EFFECTS OF CHANGES IN U.S. FEDERAL OR OTHER TAX LAWS.

Cayman Islands Tax Considerations

The following discussion of certain Cayman Islands income tax consequences of an investment in the Notes is based on the advice of Maples & Calder as to Cayman Islands law. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It assumes that the Issuer will conduct its affairs in accordance with assumptions made by, and representations made to, counsel. 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:

(a) payments of principal and interest in respect of the Notes will not be subject to taxation in the Cayman Islands and no withholding will be required on such payments to any Holder of a Note and gains derived from the sale of Notes will not be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax; and

(b) the Holder of any Note (or the legal personal representative of such Holder) whose Note is brought into the Cayman Islands may in certain circumstances be liable to pay stamp duty imposed under the laws of the Cayman Islands in respect of such Note.

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The Issuer has been incorporated under the laws of the Cayman Islands as an exempted company with limited liability and, as such, has applied for and obtained an undertaking from the Governor in Cabinet of the Cayman Islands substantially in the following form:

"The Tax Concessions Law
(1999 Revision)
Undertaking as to Tax Concessions

In accordance with Section 6 of the Tax Concessions Law (1999 Revision) the Governor in Cabinet undertakes with Gemstone CDO VII Ltd. (the **"Company"**):

(a) that no law which is hereafter enacted in the Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and

(b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:

(i) on or in respect of the shares, debentures or other obligations of the Company; or

(ii) by way of the withholding in whole or in part of any relevant payment as defined in Section 6(3) of the Tax Concessions Law (1999 Revision).

These concessions shall be for a period of twenty years from the [ ] day of [ ], 2007.

Governor in Cabinet"

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ERISA CONSIDERATIONS

The U.S. Employee Retirement Income Security Act of 1974, as amended (**"ERISA"**), imposes certain duties on persons who are fiduciaries of employee benefit plans (as defined in Section 3(3) of ERISA) subject to Title I of ERISA (**"ERISA Plans"**) and of entities whose underlying assets include assets of ERISA Plans by reason of an ERISA Plan's investment in such entities. These duties include investment prudence and diversification and the requirement that an ERISA Plan's investments be made in accordance with the documents governing the ERISA Plan. The prudence of a particular investment must be determined by the responsible fiduciary of an ERISA Plan by taking into account the ERISA Plan's particular circumstances and liquidity needs and all of the facts and circumstances of the investment, including the availability of a public market for the investment. In addition, certain U.S. federal, state and local laws impose similar duties on fiduciaries of governmental and/or church plans 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 which is subject to fiduciary standards similar to those of ERISA (**"Plan Fiduciary"**), who proposes to cause such a plan or entity to purchase Notes should determine whether, under the general fiduciary standards of ERISA or other applicable law, an investment in the Notes 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 Notes, a Plan 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/or Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the **"Code"**), prohibit certain transactions involving the assets of ERISA Plans or plans described in Section 4975(e)(1) and 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) (collectively, "Parties in Interest") having certain relationships to such Plans and entities. A Party in Interest who engages in a non-exempt prohibited transaction may be subject to non-deductible excise taxes and other penalties and liabilities under ERISA and/or the Code.

Each of the Issuer, the Co-Issuer, the Initial Purchaser 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 with respect to Plans. Accordingly, prohibited transactions (within the meaning of Section 406 of ERISA and Section 4975 of the Code) may arise if Notes are acquired by a Plan with respect to which any of the Issuer, the Co-Issuer, the Initial Purchaser, the Collateral Manager, the obligors on the Underlying Assets or any of their respective Affiliates is a Party in Interest. In addition, if a Party in Interest with respect to a Plan owns or acquires a beneficial interest in the Issuer or the Co-Issuer, the acquisition or holding of Notes by or on behalf of the Plan could be considered to constitute an indirect prohibited transaction. Moreover, the acquisition or holding of Notes or other indebtedness issued by the Issuer or the Co-Issuer by or on behalf of a Party in Interest with respect to a Plan which 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.

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Certain exemptions from the prohibited transaction rules could be applicable, however, depending in part upon the type of Plan Fiduciary making the decision to acquire a Note and the circumstances under which such decision is made. Included among these exemptions are U.S. Department of Labor (**"DOL"**) PTE 96-23, regarding investments by certain "in-house asset managers"; PTE 95-60, regarding investments by insurance company general accounts; PTE 90-1, regarding investments by insurance company pooled separate accounts; PTE 91-38, regarding investments by bank collective investment funds; and PTE 84-14, regarding transactions effected by "qualified professional asset managers." Even if the conditions specified in one or more of these exemptions are met, the scope of the relief provided by these exemptions might or might not cover all acts which might be construed as prohibited transactions. If a purchase of Notes were to constitute or result in a non-exempt prohibited transaction, the purchase might have to be rescinded.

In addition, recently enacted legislation (the **"Pension Protection Act of 2006"**) provides a statutory exemption for prohibited transactions between a plan and a Person that is a party in interest (other than a fiduciary or an affiliate that, directly or indirectly, 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 plan, *provided* that there is adequate consideration for the transaction. Prospective investors should consult with their advisors regarding the application of this statutory exemption. Governmental plans and certain church plans, while not subject to the fiduciary responsibility provisions of ERISA or the provisions of Section 4975 of the Code, may nevertheless be subject to local, state or other Federal laws that are similar to the foregoing provisions of ERISA and the Code.

The DOL, the government agency primarily responsible for administering the ERISA fiduciary rules and the prohibited transaction rules under ERISA and Section 4975 of the Code, has issued a regulation (the **"Plan Asset Regulation"**) which, 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. The term "Benefit Plan Investors" is defined in the Plan Asset Regulation, as modified by Section 3(42) of ERISA, to include (i) any employee benefit plan (as defined in Section 3(3) of ERISA) that is subject to Title I of ERISA, (ii) any plan described in Section 4975(e)(1) of the Code that is subject to Section 4975 of the Code, and (iii) any entity whose underlying assets include "plan assets" by reason of any such 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 interest in the entity, 25% or more of the value of any class of equity interests in the entity (excluding the value of any interests held by certain persons, other than Benefit Plan Investors, exercising control over the assets of the entity or providing investment advice to the entity for a fee (such as the Collateral Manager) or any Affiliates of such persons (any such person, a **"Controlling Person"**)) is held by Benefit Plan Investors (the **"25% Threshold"**).

There is little pertinent authority in this area and securities may change character from debt to equity over time due to changing circumstances. Fiduciaries of Plans considering the purchase of Notes should consult their counsel in this regard. However, it is not anticipated that the Class A Notes, the Class B Notes or the Class C Notes will constitute "equity interests" in the Issuers. Based primarily on the unconditional obligation of the Issuers to pay interest and to repay principal by a fixed maturity date and the creditors' remedies available to holders of the Class D Notes and the Class E Notes, it is anticipated that the Class D Notes and the Class E Notes will not constitute "equity interests" in the Issuers, despite their subordinated position in the capital structure of the Issuers. No measures will be taken to restrict investment in the Class D Notes or the Class E Notes by Benefit Plan Investors.

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The sale of any Note to a Plan is in no respect a representation by the Issuer, the Initial Purchaser, 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 TRANSFEREE WILL BE DEEMED TO REPRESENT AND WARRANT) THAT EITHER (A) IT IS NOT A PLAN, 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, OR AN ENTITY WHICH IS DEEMED TO HOLD THE ASSETS OF ANY SUCH PLAN PURSUANT TO 29 C.F.R. SECTION 2510.3-101 AS MODIFIED BY SECTION 3(42) OF ERISA, OR OTHERWISE, OR (B) ITS PURCHASE AND OWNERSHIP OF SUCH NOTE WILL NOT RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF A GOVERNMENTAL OR CHURCH PLAN, A NON-EXEMPT VIOLATION OF ANY SUCH SIMILAR U.S. FEDERAL, STATE OR LOCAL LAW).

It should be noted that an insurance company's general account may be deemed to include assets of ERISA Plans under certain circumstances, *e.g.*, where an ERISA Plan purchases an annuity contract issued by such an insurance company, based on the reasoning of the U.S. Supreme Court in *John Hancock Mutual Life Ins. Co. v. Harris Trust and Savings Bank*, 510 U.S. 86 (1993). An insurance company considering the purchase of Notes with assets of its general account as a wholly owned subsidiary thereof should consider such purchase and the insurance company's ability to make the representations described above in light of *John Hancock*, Section 401(c) of ERISA and 29 C.F.R. §2550.401c 1.

The discussion of ERISA and Section 4975 of the Code contained in this Offering Circular, is, of necessity, general, and does not purport to be complete. Moreover, the provisions of ERISA and Section 4975 of the Code are subject to extensive and continuing administrative and judicial interpretation and review. Therefore, the matters discussed above may be affected by future regulations, rulings and court decisions, some of which may have retroactive application and effect.

Tax penalty avoidance

The summary of ERISA considerations contained herein was written to support the promotion and marketing of the Notes, and was not intended or written to be used, and cannot be used, by a taxpayer for the purpose of avoiding any U.S. federal tax penalties that may be imposed. Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

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PLAN OF DISTRIBUTION

The Issuers and the Initial Purchaser will enter into a Note Purchase Agreement (the **"Note Purchase Agreement"**) relating to the offering and sale of the Notes. In the Note Purchase Agreement, the Issuers have agreed to sell to the Initial Purchaser, and the Initial Purchaser will agree to purchase, the entire principal amount of the Notes. The Notes purchased by the Initial Purchaser, if any, will be privately placed with eligible investors by the Initial Purchaser. The obligations of the Initial Purchaser under the Note Purchase Agreement are subject to the satisfaction of certain conditions in the Note Purchase Agreement. The Issuer will pay all fees and expenses in connection with this offering as set forth in the Note Purchase Agreement. Pursuant to the Note Purchase Agreement, the Issuers will agree to indemnify the Initial Purchaser against certain liabilities, including liabilities under the Securities Act, or to contribute to payments it may be required to make in respect thereof.

The Issuers have been advised by the Initial Purchaser that the Initial Purchaser proposes to sell the Notes (i) to Qualified Purchasers who are also (a) Qualified Institutional Buyers pursuant to Rule 144A or (b) Institutional Accredited Investors pursuant to Section 4(2), and (ii) to certain persons in offshore transactions in reliance on Regulation S under the Securities Act. Buyers of the Notes may be required to make certain representations with respect to their ability to invest in the Notes.

The Notes are offered subject to prior sale, to withdrawal, cancellation or modification of the offer without notice, to the right of the Initial Purchaser to reject any order in whole or in part for any reason and to certain other conditions.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons except in accordance with Regulation S or pursuant to the exemptions from the registration requirements under the Securities Act provided by Rule 144A.

(1) In the Note Purchase Agreement, the Initial Purchaser will represent and agree that it has offered or sold Notes and will offer or sell Notes (a) as part of its distribution at any time and (b) otherwise until 40 days after the completion of the distribution of the Notes, only in accordance with Rule 903 of Regulation S or Rule 144A or any other available exemption from the Registration requirements of the Securities Act. Accordingly, the Initial Purchaser will represent and agree that neither it, its affiliates (if any) nor any persons acting on their behalf have engaged or will engage in any directed selling efforts (within the meaning of Regulation S) with respect to the Notes, and they have complied and will comply with the offering restrictions requirements of Regulation S.

(2) In the Note Purchase Agreement the Initial Purchaser will agree that (i) it will not solicit offers for, or offer or sell, any of the Notes by any form of general solicitation or general advertising (as those terms are used in Regulation D under the Securities Act) or in any manner involving a public offering within the meaning of Section 4(2) of the Securities Act, (ii) it will solicit offers for the Notes only from, and will offer the Notes only to, persons that (A) it reasonably believes to be, in the case of offers inside the United States or to U.S. Persons, Qualified Institutional Buyers or Institutional Accredited Investors, who are also Qualified Purchasers or (B) in the case of offers outside the United States, are non-U.S. Persons; and (iii) with respect to offers and sales of the Notes outside the United States that it will not offer, sell or deliver any of the Notes in any jurisdiction outside the

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United States except under circumstances that will result in compliance with the applicable laws thereof.

United Kingdom

Pursuant to the Purchase Agreement, the Initial Purchaser will represent and agree that:

(1) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or Dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;

(2) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (**"FSMA"**)) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(3) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Cayman Islands

The Initial Purchaser has represented and agreed that it has not made and will not make any invitation to any member of the public in the Cayman Islands to subscribe for any of the Notes (or the Preference Shares).

General

The Issuers and the Collateral Manager extend to each prospective investor the opportunity to ask questions of, and receive answers from, the Issuers and the Collateral Manager concerning the Notes and the terms and conditions of this Offering and to obtain any additional information it may consider necessary in making an informed investment decision and any information necessary in order to verify the accuracy of the information set forth herein, to the extent the Issuers, or the Collateral Manager possesses the same. Requests for such additional information can be directed to Gemstone CDO VII Ltd., c/o Maples Finance Limited, P.O. Box 1093GT, Queensgate House, South Church Street, George Town, Grand Cayman, Cayman Islands; Gemstone CDO VII Corp., c/o Puglisi & Associates, 850 Library Avenue Suite 204, Newark, Delaware 19711; and HBK Investments L.P., 300 Crescent Court Suite 700, Dallas, Texas 75201, Attention: Fixed Income Division.

No action has been or will be taken in any jurisdiction that would permit a public offering of the Notes or possession, circulation or distribution of this Offering Circular or any other offering material relating to the Issuer of the Notes in any country or jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material or advertisements in connection with the Notes may be distributed or published, in or from any country or jurisdiction, except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction. Purchasers of the Notes

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may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the purchase price.

The Notes are newly issued securities for which there currently is no market. The Initial Purchaser has advised the Issuer that the Initial Purchaser presently does not intend to make a market in the Notes.

Certain of the Underlying Assets may have been originally underwritten, originated or placed by the Initial Purchaser or its affiliates. In addition, the Initial Purchaser and its affiliates may have in the past and may in the future perform investment banking services, commercial banking services or other services for issuers of the Underlying Assets.

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TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of Notes.

Investor Representations on Original Purchase. Each Original Purchaser of Notes from the Initial Purchaser will be deemed to acknowledge, represent to and agree with the Issuers and the Initial Purchaser as follows:

(1) *No Governmental Approval.* The purchaser understands that the Notes have not been approved or disapproved by the SEC or any other governmental authority or agency of any jurisdiction, nor has the SEC or any other governmental authority or agency passed upon the accuracy or adequacy of this Offering Circular. Any representation to the contrary is a criminal offense.

(2) *Certification Upon Transfer.* If required by the Indenture, the purchaser will, prior to any sale, pledge or other transfer by it of any Note (or any interest therein), obtain from the transferee and deliver to the Issuers, the Trustee and the Note Registrar a duly executed transfer certificate addressed to each of the Issuers, the Trustee and the Note Registrar in the form of the relevant exhibit attached to the Indenture and such other certificates and other information as the Issuers, the Trustee or the Note Registrar may reasonably require to confirm that the proposed transfer substantially complies with the transfer restrictions set forth in the Indenture and described herein.

(3) *Minimum Denominations; Form of Notes.* The purchaser agrees that no Note (or any interest therein) may be sold, pledged or otherwise transferred in a denomination of less than the applicable required minimum denomination set forth in the Indenture and described herein.

(4) *Securities Law Limitations on Resale.* The purchaser understands that the Notes have not been registered under the Securities Act and, therefore, cannot be offered or sold in the United States or to U.S. Persons (as defined in Rule 902(k) under the Securities Act) unless they are registered under the Securities Act or unless an exemption from registration is available. Accordingly, the certificates representing the Notes will bear a legend stating that such Notes have not been registered under the Securities Act and setting forth certain of the restrictions on transfer of the Notes described herein. The purchaser understands that the Issuers have no obligation to register any of the Notes 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) *Qualified Institutional Buyer, Institutional Accredited Investor or Non-U.S. Person Status; Investment Intent.* In the case of a purchaser who takes delivery of Notes in the form of a Restricted Note, (a) it is a Qualified Institutional Buyer or, in respect of certain Original Purchasers, an Institutional Accredited Investor, and (b) is acquiring the Notes for its own account for investment purposes and not with a view to the distribution thereof (except in accordance with Rule 144A). In the case of a purchaser who takes delivery of Notes in the form of a Regulation S Note, (a) it is not a U.S. Person (as defined in Rule 902(k) under the Securities Act), (b) it is purchasing such Notes for its own account and not for the account or benefit of a U.S. Person and (c) it understands that prior to the end of the

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Distribution Compliance Period, interests in a Regulation S Note may be held only through Euroclear or Clearstream.

(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 the Notes, (b) is financially able to bear such risk, (c) in making such investment is not relying on the advice or recommendations of the Initial Purchaser, the Issuer, the Co-Issuer, the Collateral Manager or any of their respective affiliates (or any representative of any of the foregoing) and (d) has determined that an investment in the Notes is suitable and appropriate for it. The purchaser has received, and has had an adequate opportunity to review the contents of, this Offering Circular. The purchaser has had access to such financial and other information concerning the Issuers and the Notes as it has deemed necessary to make its own independent decision to purchase Notes, including the opportunity, at a reasonable time prior to its purchase of Notes, to ask questions and receive answers concerning the Issuers and the terms and conditions of the offering of the Notes.

(7) *Certain Resale Limitations; Rule 144A.* No Note (or any interest therein) may be offered, sold, pledged or otherwise transferred to (a) a transferee acquiring a Restricted Note except (i) 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, (ii) to a transferee that is a Qualified Purchaser, (iii) to a transferee that is not a Flow-Through Investment Vehicle (other than a Qualifying Investment Vehicle), (iv) if such transfer is made in compliance with the certification (if any) and other requirements set forth in the Indenture and (v) if such transfer is made in accordance with any applicable securities laws of any state of the United States and any other relevant jurisdiction or (b) a transferee acquiring an interest in a Regulation S Note except (i) to a transferee that is a non-U.S. Person acquiring such interest in an offshore transaction (within the meaning of Regulation S) in accordance with Rule 904 of Regulation S, (ii) if such transfer is made in compliance with the certification (if any) and other requirements set forth in the Indenture and (iii) if such transfer is made in accordance with any applicable securities laws of any state of the United States and any other relevant jurisdiction.

(8) *Limited Liquidity.* The purchaser understands that there is no market for Notes and that no assurance can be given as to the liquidity of any trading market for Notes and that it is unlikely that a trading market for any of the Notes will develop. The purchaser further understands that, although the Initial Purchaser may from time to time make a market in Notes, the Initial Purchaser is under no obligation to do so and, following the commencement of any market-making, it may discontinue the same at any time. Accordingly, the purchaser must be prepared to hold Notes for an indefinite period of time or until their maturity. The purchaser further understands that the Notes are limited-recourse obligations of the Issuers, payable solely from the Collateral in accordance with the Priority of Payments.

(9) *Investment Company Act.* The purchaser either (a) is not a U.S. resident (within the meaning of the Investment Company Act) or (b) is a Qualified Purchaser. The purchaser

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agrees that no sale, pledge or other transfer of a Note (or any interest therein) may be made (m) unless such transfer is made to a transferee who, if a U.S. resident (within the meaning of the Investment Company Act), is a Qualified Purchaser or (n) if such transfer would have the effect of requiring either of the Issuers to register as an investment company under the Investment Company Act. If the purchaser is a U.S. resident that is an entity that would be an investment company but for the exception provided for in Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act (any such entity, an **"excepted investment company"**): (x) all of the beneficial owners of outstanding securities (other than short-term paper) of such entity (such beneficial owners determined in accordance with Section 3(c)(1)(A) of the Investment Company Act) that acquired such securities on or before April 30, 1996 (**"pre-amendment beneficial owners"**); and (y) all pre-amendment beneficial owners of the outstanding securities (other than short-term paper) of any excepted investment company that, directly or indirectly, owns any outstanding securities of such entity, have consented to such entity's treatment as a Qualified Purchaser in accordance with the Investment Company Act.

Each purchaser of a Restricted Note or an interest therein will be deemed to represent at the time of purchase that the purchaser is (a) a Qualified Institutional Buyer (or, in respect of certain Original Purchasers, an Institutional Accredited Investor) and (b) a Qualified Purchaser.

(10) *Certifications Related to Tax Withholding.* The Purchaser understands that the Issuer may require certification acceptable to it (a) to permit the Issuer to make payments to it without, or at a reduced rate of, withholding or (b) 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. The Purchaser agrees to provide any such certification that is requested by the Issuer.

(11) *Tax Treatment.* The Purchaser agrees by its acquisition of the Note or Notes that for purposes of U.S. federal income, state and local income and franchise tax and any other income taxes, it will treat the Notes as indebtedness of Issuer acknowledges that the Issuer will be treated as a corporation and that the Preference Shares will be treated as equity in the Issuer, and agrees to take no action inconsistent with such treatment, unless required by law.

(12) *ERISA.* In the case of each purchaser of a Note either that (i) it is not, and is not 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 within the meaning of Section 4975(e)(1) of the Code that is subject to Section 4975 of the Code, 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 or an entity which is deemed to hold the assets of any such plan pursuant to 29 C.F.R. §2510.3-101, as modified by Section 3(42) of ERISA, or otherwise or (ii) its purchase and ownership of the Notes will not result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of a governmental or church plan, a non-exempt violation of any similar U.S. Federal, state or local law).

(13) *Limitations on Flow-Through Status.* In the case of a purchaser that is a U.S. resident (within the meaning of the Investment Company Act), the purchaser represents that, unless the purchaser is a Qualifying Investment Vehicle, (a) if the purchaser would be an investment company but for the exception in Section 3(c)(1) or Section 3(c)(7) of the

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Investment Company Act, the amount of the purchaser's investment in the Notes and Preference Shares does not exceed [40]% of the total assets (determined on a consolidated basis with its subsidiaries) of the purchaser; (b) no person owning any equity or similar interest in the purchaser has the ability to control any investment decision of the purchaser or to determine, on an investment-by-investment basis, the amount of such person's contribution to any investment made by the purchaser; (c) the purchaser was not organized or reorganized for the specific purpose of acquiring Notes or Preference Shares; and (d) no 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 Notes or Preference Shares (any such transferee in (a), (b), (c) or (d) above being herein referred to as a **"Flow-Through Investment Vehicle"**). For this purpose, a **"Qualifying Investment Vehicle"** is an entity as to which all of the beneficial owners of any securities issued by such entity have made, and as to which (in accordance with the document pursuant to which such entity was organized or the agreement or other document governing such securities) each such beneficial owner must require any transferee of any such security to make, to the Issuer or the Issuers, as the case may be, and the Trustee and the Note Registrar (in the case of the Notes) or the Preference Shares Transfer Agent (in the case of the Preference Shares) each of the representations set forth herein and in the Indenture and the Preference Share Paying Agency Agreement required to be made upon transfer of any of the relevant Class of Notes or Preference Shares (with modifications to such representations satisfactory to the Issuer, the Co-Issuer, the Trustee, the Note Registrar and the Preference Share Transfer Agent (as applicable) to reflect the indirect nature of the interests of such beneficial owners in such Notes or Preference Shares. If the purchaser is a Flow-Through Investment Vehicle, the purchaser represents and warrants that either (x) none of the beneficial owners of its securities are U.S. residents (within the meaning of the Investment Company Act) or (y) some or all of the beneficial owners of its securities are U.S. residents (within the meaning of the Investment Company Act) and each such beneficial owner has certified to the purchaser that it is a Qualified Purchaser. If the purchaser is a Flow-Through Investment Vehicle, the purchaser also represents and warrants 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 Notes or Preference Shares).

(14) *Certain Transfers Void.* In the case of a purchaser who takes delivery of Notes in the form of a Restricted Note, the purchaser agrees that (a) any sale, pledge or other transfer of a Note (or any interest therein) made in violation of the transfer restrictions contained in Indenture and described herein, or made based upon any false or inaccurate representation made by the purchaser or a transferee to the Issuer, the Co-Issuer, the Trustee or the Note Registrar will be void and of no force or effect and (b) none of the Issuer, the Co-Issuer, the Trustee and the Note Registrar has any obligation to recognize any sale, pledge or other transfer of a Note (or any interest therein) made in violation of any such transfer restriction or made based upon any such false or inaccurate representation.

The Indenture provides that if, notwithstanding the restrictions on transfer contained therein, either of the Issuers determines that any beneficial owner of a Restricted Note (or any interest therein) (a) is a U.S. Person and (b) is not both a Qualified Institutional Buyer (or, in respect of certain Original Purchasers, an Institutional Accredited Investor) and a Qualified Purchaser, then either of the Issuers may require, by notice to such beneficial

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owner, that such beneficial owner sell all of its right, title and interest to such Restricted Note (or interest therein) to a person that is (i) a non-U.S. Person in a transfer for an interest in a Regulation S Note, or (ii) 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, (y) upon direction from the Collateral Manager or the Issuer, the Trustee, on behalf of and at the expense of the Issuer, shall cause such beneficial owner's interest in such Note to be transferred in a commercially reasonable sale (conducted by an investment bank selected by the Trustee with the consent of the Collateral Manager in accordance with Section 9-610(b) of the Uniform Commercial Code as in effect in the State of New York as applied to securities that are sold on a recognized market or that may decline speedily in value) to a person to whom such Note (or interest therein) may be transferred in accordance with the transfer restrictions set forth in the Indenture and (z) pending such transfer, no further payments will be made in respect of such Note held by such beneficial owner.

(15) *Reliance on Representations, etc.* The purchaser acknowledges that the Issuers, the Initial Purchaser and the Trustee 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 made or deemed to have been made by it in connection with its purchase of Notes are no longer accurate, the purchaser will promptly notify the Issuers, the Initial Purchaser and the Trustee.

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

(17) *USA PATRIOT Act.* To the extent applicable to the Issuers, the Issuers may impose additional transfer restrictions to comply with the USA PATRIOT Act and other similar laws or regulations, and each beneficial owner of a Note is deemed to have agreed to comply with such transfer restrictions. The Issuers shall notify the Trustee, the Note Registrar and the Share Registrar of any such restrictions.

(18) *Legend for Notes.* The purchaser understands and agrees that a legend in substantially the following form will be placed on each certificate representing any Regulation S Global 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 WHICH TAKES DELIVERY OF THIS NOTE (OR INTEREST HEREIN) IN THE FORM OF A RESTRICTED NOTE AND WHOM THE SELLER REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT (**"RULE 144A"**), PURCHASING FOR ITS OWN ACCOUNT, TO WHOM NOTICE IS GIVEN THAT THE RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON THE EXEMPTION FROM SECURITIES ACT REGISTRATION PROVIDED BY RULE 144A OR (2) TO A NON-U.S. PERSON IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE SECURITIES ACT (**"REGULATION S"**), (B) IN COMPLIANCE WITH THE CERTIFICATION AND OTHER REQUIREMENTS SPECIFIED IN THE INDENTURE REFERRED TO HEREIN AND (C) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND ANY OTHER RELEVANT JURISDICTION.

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NEITHER OF THE ISSUERS HAS BEEN REGISTERED UNDER THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE **"INVESTMENT COMPANY ACT"**). NO TRANSFER OF THIS NOTE (OR ANY INTEREST HEREIN) MAY BE MADE (AND NONE OF THE ISSUERS, THE TRUSTEE OR THE NOTE REGISTRAR WILL RECOGNIZE ANY SUCH TRANSFER) IF (A) SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE WHO IS A U.S. RESIDENT (WITHIN THE MEANING OF THE INVESTMENT COMPANY ACT) BUT IS NOT A **"QUALIFIED PURCHASER"** AS DEFINED IN SECTION 2(a)(51)(A) OF THE INVESTMENT COMPANY ACT AND RELATED RULES, A "KNOWLEDGEABLE EMPLOYEE" WITH RESPECT TO EITHER OF THE ISSUERS (WITHIN THE MEANING OF RULE 3c-5 UNDER THE INVESTMENT COMPANY ACT) OR A COMPANY EACH OF WHOSE BENEFICIAL OWNERS IS A QUALIFIED PURCHASER OR A KNOWLEDGEABLE EMPLOYEE (COLLECTIVELY, A **"QUALIFIED PURCHASER"**) TAKING DELIVERY OF THIS NOTE (OR INTEREST HEREIN) IN THE FORM OF A RESTRICTED NOTE, (B) SUCH TRANSFER WOULD HAVE THE EFFECT OF REQUIRING EITHER OF THE ISSUERS TO REGISTER AS AN INVESTMENT COMPANY UNDER THE INVESTMENT COMPANY ACT OR (C) OTHER THAN IN THE CASE OF A TRANSFEREE WHO ACQUIRES AN INTEREST IN A REGULATION S GLOBAL NOTE AFTER THE END OF THE DISTRIBUTION COMPLIANCE PERIOD IN AN OFFSHORE TRANSACTION EFFECTED IN ACCORDANCE WITH RULE 904 OF REGULATION S, SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE WHO IS A U.S. RESIDENT THAT IS A FLOW-THROUGH INVESTMENT VEHICLE OTHER THAN A QUALIFYING INVESTMENT VEHICLE (EACH AS DEFINED IN THE INDENTURE) WHICH TAKES DELIVERY OF THIS NOTE (OR INTEREST HEREIN) IN THE FORM OF A RESTRICTED NOTE.

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 U.S. RESIDENT AND 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.

EACH ORIGINAL PURCHASER AND TRANSFEREE WILL BE DEEMED TO REPRESENT AND WARRANT) THAT EITHER (A) IT IS NOT A PLAN, 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, OR AN ENTITY WHICH IS DEEMED TO HOLD THE ASSETS OF ANY SUCH PLAN PURSUANT TO 29 C.F.R. SECTION 2510.3-101, AS MODIFIED BY SECTION 3(42) OF ERISA, OR OTHERWISE OR (B) ITS PURCHASE AND OWNERSHIP OF SUCH NOTE WILL NOT RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF A GOVERNMENTAL OR CHURCH PLAN, A NON-EXEMPT VIOLATION OF ANY SUCH SIMILAR U.S. FEDERAL, STATE OR LOCAL LAW).

EACH PURCHASER OF THIS NOTE WILL BE DEEMED TO HAVE MADE THE APPLICABLE REPRESENTATIONS AND AGREEMENTS SET FORTH IN THIS LEGEND.

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THIS NOTE OR ANY BENEFICIAL INTEREST HEREIN MAY NOT BE HELD AT ANY TIME BY A U.S. PERSON WHO IS NOT A QUALIFIED PURCHASER. THIS NOTE OR ANY BENEFICIAL INTEREST HEREIN MAY BE TRANSFERRED TO A PERSON WHO TAKES DELIVERY IN THE FORM OF AN INTEREST IN A RESTRICTED NOTE OR (IN CERTAIN LIMITED CIRCUMSTANCES) A DEFINITIVE NOTE ONLY (IN THE CASE OF AN INTEREST IN A RESTRICTED GLOBAL NOTE) IN ACCORDANCE WITH APPLICABLE PROCEDURES (AS DEFINED IN THE INDENTURE) AND (IN THE CASE OF A DEFINITIVE NOTE) UPON RECEIPT BY THE NOTE REGISTRAR OF A TRANSFER CERTIFICATE BY THE TRANSFEROR AND THE TRANSFEREE SUBSTANTIALLY IN THE FORM SPECIFIED IN THE INDENTURE.

THIS NOTE (OR AN INTEREST HEREIN) MAY NOT BE TRANSFERRED UNLESS, AFTER GIVING EFFECT TO THE TRANSFER, THE TRANSFEREE IS HOLDING A NOTE WITH AN ORIGINAL PRINCIPAL AMOUNT WHICH IS EQUAL TO U.S.$500,000 OR INTEGRAL MULTIPLES OF U.S.$1,000 IN EXCESS THEREOF.

TO THE EXTENT APPLICABLE TO THE ISSUERS, THE ISSUERS MAY IMPOSE ADDITIONAL TRANSFER RESTRICTIONS TO COMPLY WITH THE USA PATRIOT ACT OR OTHER SIMILAR LAWS AND REGULATIONS, AND EACH BENEFICIAL OWNER OF A NOTE AGREES TO COMPLY WITH SUCH TRANSFER RESTRICTIONS.

THE PURCHASER OF THIS NOTE OR ANY BENEFICIAL INTEREST HEREIN WILL BE DEEMED TO UNDERSTAND AND AGREE THAT IF ANY PURPORTED TRANSFER OF THIS NOTE OR ANY BENEFICIAL INTEREST HEREIN TO A PURCHASER DOES NOT COMPLY WITH THE REQUIREMENTS SET FORTH IN THIS NOTE OR THE INDENTURE, THEN THE PURPORTED TRANSFEROR OF THIS NOTE OR BENEFICIAL INTEREST HEREIN SHALL BE REQUIRED TO CAUSE THE PURPORTED TRANSFEREE TO SURRENDER THE TRANSFERRED NOTE OR ANY BENEFICIAL INTEREST THEREIN IN RETURN FOR A REFUND OF THE CONSIDERATION PAID THEREFOR BY SUCH TRANSFEREE (TOGETHER WITH INTEREST THEREON) OR TO CAUSE THE PURPORTED TRANSFEREE TO DISPOSE OF SUCH NOTE OR BENEFICIAL INTEREST PROMPTLY IN ONE OR MORE OPEN MARKET SALES TO ONE OR MORE PERSONS EACH OF WHOM SATISFIES THE REQUIREMENTS OF THE REPRESENTATIONS, WARRANTIES AND COVENANTS SET FORTH IN THIS LEGEND, AND SUCH PURPORTED TRANSFEROR SHALL TAKE, AND SHALL CAUSE SUCH TRANSFEREE TO TAKE, ALL FURTHER ACTION NECESSARY OR DESIRABLE, IN THE JUDGMENT OF THE ISSUER, TO ENSURE THAT SUCH NOTE OR ANY BENEFICIAL INTEREST THEREIN IS HELD BY PERSONS IN COMPLIANCE THEREWITH. ANY TRANSFER IN VIOLATION OF THE FOREGOING PROVISIONS OF THIS NOTE OR THE INDENTURE WILL BE OF NO FORCE AND EFFECT, WILL BE VOID *AB INITIO*, AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUERS, THE TRUSTEE OR ANY INTERMEDIARY.

The purchaser understands and agrees that a legend in substantially the following form will be placed on each certificate representing any Restricted Global 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" WITHIN

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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 RULE 904 OF REGULATION S UNDER THE SECURITIES ACT (**"REGULATION S"**), (B) IN COMPLIANCE WITH THE CERTIFICATION AND OTHER REQUIREMENTS SPECIFIED IN THE INDENTURE REFERRED TO HEREIN AND (C) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND ANY OTHER RELEVANT JURISDICTION.

NEITHER OF THE ISSUERS HAS BEEN REGISTERED UNDER THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE **"INVESTMENT COMPANY ACT"**). NO TRANSFER OF THIS NOTE (OR ANY INTEREST HEREIN) MAY BE MADE (AND NONE OF THE ISSUERS, THE TRUSTEE OR THE NOTE REGISTRAR WILL RECOGNIZE ANY SUCH TRANSFER) IF (A) SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE WHO IS A U.S. RESIDENT (WITHIN THE MEANING OF THE INVESTMENT COMPANY ACT) BUT IS NOT A **"QUALIFIED PURCHASER"** AS DEFINED IN SECTION 2(a)(51)(A) OF THE INVESTMENT COMPANY ACT AND RELATED RULES, A "KNOWLEDGEABLE EMPLOYEE" WITH RESPECT TO THE ISSUER (WITHIN THE MEANING OF RULE 3c-5 UNDER THE INVESTMENT COMPANY ACT) OR A COMPANY EACH OF WHOSE BENEFICIAL OWNERS IS A QUALIFIED PURCHASER OR A KNOWLEDGEABLE EMPLOYEE (COLLECTIVELY, A **"QUALIFIED PURCHASER"**) TAKING DELIVERY OF THIS NOTE (OR INTEREST HEREIN) IN THE FORM OF A RESTRICTED NOTE, (B) SUCH TRANSFER WOULD HAVE THE EFFECT OF REQUIRING EITHER OF THE ISSUERS TO REGISTER AS AN INVESTMENT COMPANY UNDER THE INVESTMENT COMPANY ACT OR (C) SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE WHO IS A U.S. RESIDENT THAT IS A FLOW-THROUGH INVESTMENT VEHICLE OTHER THAN A QUALIFYING INVESTMENT VEHICLE (EACH AS DEFINED IN THE INDENTURE) WHICH TAKES DELIVERY OF THIS NOTE (OR INTEREST HEREIN) IN THE FORM OF A RESTRICTED NOTE.

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.

EACH ORIGINAL PURCHASER AND TRANSFEREE WILL BE DEEMED TO REPRESENT AND WARRANT) THAT EITHER (A) IT IS NOT A PLAN, 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, OR AN ENTITY WHICH IS DEEMED TO HOLD THE ASSETS OF ANY SUCH PLAN PURSUANT TO 29 C.F.R. SECTION 2510.3-101, AS MODIFIED BY SECTION 3(42) OF EREISA, OR OTHERWISE OR (B) ITS PURCHASE AND OWNERSHIP OF SUCH NOTE WILL NOT RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF

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ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF A GOVERNMENTAL OR CHURCH PLAN, A NON-EXEMPT VIOLATION OF ANY SUCH SIMILAR U.S. FEDERAL, STATE OR LOCAL LAW).

EACH PURCHASER OF THIS NOTE WILL BE DEEMED TO HAVE MADE THE APPLICABLE REPRESENTATIONS AND AGREEMENTS SET FORTH IN THIS LEGEND.

THIS NOTE OR ANY BENEFICIAL INTEREST HEREIN MAY BE TRANSFERRED TO A PERSON WHO TAKES DELIVERY IN THE FORM OF AN INTEREST IN A REGULATION S NOTE OR (IN CERTAIN LIMITED CIRCUMSTANCES) A DEFINITIVE NOTE ONLY (IN THE CASE OF AN INTEREST IN A REGULATION S GLOBAL NOTE) IN ACCORDANCE WITH APPLICABLE PROCEDURES (AS DEFINED IN THE INDENTURE) AND (IN THE CASE OF A DEFINITIVE NOTE) UPON RECEIPT BY THE NOTE REGISTRAR OF A TRANSFER CERTIFICATE BY THE TRANSFEROR AND THE TRANSFEREE SUBSTANTIALLY IN THE FORM SPECIFIED IN THE INDENTURE.

THIS NOTE (OR AN INTEREST HEREIN) MAY NOT BE TRANSFERRED UNLESS, AFTER GIVING EFFECT TO THE TRANSFER, THE TRANSFEREE IS HOLDING A NOTE WITH AN ORIGINAL PRINCIPAL AMOUNT WHICH IS EQUAL TO U.S.$500,000 OR INTEGRAL MULTIPLES OF U.S.$1,000 IN EXCESS THEREOF.

TO THE EXTENT APPLICABLE TO THE ISSUERS, THE ISSUERS MAY IMPOSE ADDITIONAL TRANSFER RESTRICTIONS TO COMPLY WITH THE USA PATRIOT ACT OR OTHER SIMILAR LAWS AND REGULATIONS, AND EACH BENEFICIAL OWNER OF A NOTE AGREES TO COMPLY WITH SUCH TRANSFER RESTRICTIONS.

THE PURCHASER OF THIS NOTE OR ANY BENEFICIAL INTEREST HEREIN WILL BE DEEMED TO UNDERSTAND AND AGREE THAT IF ANY PURPORTED TRANSFER OF THIS NOTE OR ANY BENEFICIAL INTEREST HEREIN TO A PURCHASER DOES NOT COMPLY WITH THE REQUIREMENTS SET FORTH IN THIS NOTE OR THE INDENTURE, THEN THE PURPORTED TRANSFEROR OF THIS NOTE OR BENEFICIAL INTEREST HEREIN SHALL BE REQUIRED TO CAUSE THE PURPORTED TRANSFEREE TO SURRENDER THE TRANSFERRED NOTE OR ANY BENEFICIAL INTEREST THEREIN IN RETURN FOR A REFUND OF THE CONSIDERATION PAID THEREFOR BY SUCH TRANSFEREE (TOGETHER WITH INTEREST THEREON) OR TO CAUSE THE PURPORTED TRANSFEREE TO DISPOSE OF SUCH NOTE OR BENEFICIAL INTEREST PROMPTLY IN ONE OR MORE OPEN MARKET SALES TO ONE OR MORE PERSONS EACH OF WHOM SATISFIES THE REQUIREMENTS OF THE REPRESENTATIONS, WARRANTIES AND COVENANTS SET FORTH IN THIS LEGEND, AND SUCH PURPORTED TRANSFEROR SHALL TAKE, AND SHALL CAUSE SUCH TRANSFEREE TO TAKE, ALL FURTHER ACTION NECESSARY OR DESIRABLE, IN THE JUDGMENT OF THE ISSUER, TO ENSURE THAT SUCH NOTE OR ANY BENEFICIAL INTEREST THEREIN IS HELD BY PERSONS IN COMPLIANCE THEREWITH. ANY TRANSFER IN VIOLATION OF THE FOREGOING PROVISIONS OF THIS NOTE OR THE INDENTURE WILL BE OF NO FORCE AND EFFECT, WILL BE VOID *AB INITIO*, AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUERS, THE TRUSTEE OR ANY INTERMEDIARY.

IF, NOTWITHSTANDING THE RESTRICTIONS SET FORTH IN THIS NOTE OR THE INDENTURE, EITHER OF THE ISSUERS DETERMINES THAT ANY HOLDER OF THIS RESTRICTED NOTE OR AN INTEREST HEREIN (I) IS A U.S. PERSON AND (II) IS NOT BOTH

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A QUALIFIED INSTITUTIONAL BUYER (OR, IN RESPECT OF CERTAIN ORIGINAL PURCHASERS, AN INSTITUTIONAL ACCREDITED INVESTOR) AND A QUALIFIED PURCHASER, THE ISSUERS SHALL REQUIRE, BY NOTICE TO SUCH HOLDER, AS THE CASE MAY BE, THAT SUCH HOLDER SELL ALL OF ITS RIGHT, TITLE AND INTEREST TO THIS NOTE (OR INTEREST HEREIN) TO A PERSON THAT IS (1) A NON-U.S. PERSON IN A TRANSFER FOR AN INTEREST IN A REGULATION S NOTE OR (2) 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 HOLDER FAILS TO EFFECT THE TRANSFER REQUIRED WITHIN SUCH 30-DAY PERIOD, (X) UPON WRITTEN DIRECTION FROM THE COLLATERAL MANAGER OR THE ISSUER, THE TRUSTEE SHALL, AND IS HEREBY IRREVOCABLY AUTHORIZED BY SUCH HOLDER TO, CAUSE ITS INTEREST IN THIS NOTE TO BE TRANSFERRED IN A COMMERCIALLY REASONABLE SALE (CONDUCTED BY AN INVESTMENT BANK SELECTED BY THE TRUSTEE WITH THE CONSENT OF THE COLLATERAL MANAGER IN ACCORDANCE WITH SECTION 9-610(b) OF THE UCC AS APPLIED TO SECURITIES THAT ARE SOLD ON A RECOGNIZED MARKET OR THAT MAY DECLINE SPEEDILY IN VALUE) TO A PERSON THAT CERTIFIES TO THE TRUSTEE, THE ISSUERS AND THE COLLATERAL MANAGER, IN CONNECTION WITH SUCH TRANSFER, THAT SUCH PERSON IS (1) A NON-U.S. PERSON IN A TRANSFER FOR AN INTEREST IN A REGULATION S NOTE OR (2) BOTH A QUALIFIED INSTITUTIONAL BUYER AND A QUALIFIED PURCHASER, AND (Y) PENDING SUCH TRANSFER, NO FURTHER PAYMENTS WILL BE MADE IN RESPECT OF THE INTEREST IN THIS NOTE, AND THE INTEREST IN THIS NOTE SHALL NOT BE DEEMED TO BE OUTSTANDING FOR THE PURPOSE OF ANY VOTE OR CONSENT OF THE NOTEHOLDERS.

Investor Representations on Resale. Except as provided in the remainder of this paragraph, each transferee of a Note will be required to deliver to the Issuers, the Trustee and the Note Registrar a duly executed transferee certificate in the form of the relevant exhibit attached to the Indenture and such other certificates and other information as the Issuer, the Co-Issuer, the Trustee or the Note Registrar may reasonably require to confirm that the proposed transfer complies with the transfer restrictions contained in this Offering Circular. An owner of a beneficial interest in a Regulation S Global Note may transfer such interest in the form of a beneficial interest in such Regulation S Global Note without the provision of written certification, *provided* that such transfer is not made to a U.S. Person or for the account or benefit of a U.S. Person and is effected, prior to the expiration of the Distribution Compliance Period, through Euroclear or Clearstream or, after the expiration of the Distribution Compliance Period, through a clearing system other than Euroclear or Clearstream, in an offshore transaction as required by Regulation S and only in accordance with the Applicable Procedures. An owner of a beneficial interest in a Restricted Global Note may transfer such interest in the form of a beneficial interest in such Restricted Global Note without the provision of written certification if the Transferee is a Qualified Institutional Buyer that is also a Qualified Purchaser.

Pursuant to such transferee certificate, (a) the transferee will acknowledge, represent to and agree with the Issuers, the Trustee and the Note Registrar as to the matters set forth in each of paragraphs (1) through (18) above (other than paragraphs (5), (6) and (8) above) as if each reference therein to "the purchaser" were instead a reference to the transferee and (b) further represents to and agrees with the Issuers, the Trustee and the Note Registrar as follows:

(1) In the case of a transferee who takes delivery of Restricted Notes, it (a) is a U.S. Person that is both (i) a Qualified Institutional Buyer and (ii) a Qualified Purchaser; (b) it will provide written notice of the foregoing, and of any applicable restrictions on transfer, to

any transferee; (c) is aware that the sale to it is being made in reliance on Rule 144A; and (d) is acquiring such Notes for its own account. In the case of a transferee who takes delivery of Regulation S Notes, it (u) is a non-U.S. Person acquiring such Notes in an offshore transaction in accordance with Rule 904 of Regulation S, (v) is acquiring such Notes for its own account, (w) is not acquiring, and has not entered into any discussions regarding its acquisition of, such Notes while it is in the United States or any of its territories or possessions, (x) understands that such Notes are being sold without registration under the Securities Act by reason of an exemption that depends, in part, on the accuracy of these representations, (y) understands that such Notes may not, absent an applicable exemption, be transferred without registration and/or qualification under the Securities Act and applicable state securities laws and the laws of any other applicable jurisdiction, and (z) understands that prior to the end of the Distribution Compliance Period, interests in a Regulation S Global Note may only be held through Euroclear or Clearstream.

(2) It acknowledges that the foregoing acknowledgements, representations and agreements will be relied upon by the Issuers, the Trustee and the Note Registrar for the purpose of determining its eligibility to purchase Notes. It agrees to provide, if requested, any additional information that may be required to substantiate its status as a Qualified Institutional Buyer or under the exception provided pursuant to Section 3(c)(7) of the Investment Company Act, to determine compliance with ERISA and/or Section 4975 of the Code or to otherwise determine its eligibility to purchase Notes.

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LISTING AND GENERAL INFORMATION

1. Application will be made to the Irish Financial Services Regulatory Authority, as competent authority under Directive 2003/71/EC, for the prospectus to be approved. Application will be made to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on its regulated market. Such approval relates only to Notes which are to be admitted to trading on the regulated market of the Irish Stock Exchange or other regulated markets for the purposes of Directive 93/22/EEC or which are to be offered to the public in any Member State of the European Economic Area. Copies of this Offering Circular, the Issuer Charter, the Preference Share Paying Agency Agreement, the Management Agreement, the Note Purchase Agreement, the Administration Agreement, any Interest Rate Swap Agreement, each Synthetic Security, the Initial Investment Agreement, the Certificate of Incorporation and By-laws of the Co-Issuer and the Indenture will be available for inspection at the registered office of the Issuer and at the office of the Irish Paying Agent, where electronic copies thereof may be obtained, free of charge, upon request for the life of this document.

2. Copies of the Issuer Charter, the Certificate of Incorporation and By-laws of the Co-Issuer, the resolutions of the Board of Directors of the Issuer authorizing the issuance of the Notes and the resolutions of the Board of Directors of the Co-Issuer authorizing the issuance of the Notes, the Indenture and the Management Agreement may be obtained free of charge upon request within 30 days of the date of this Offering Circular at the office of the Trustee on behalf of the Issuer.

3. Each of the Issuers represents that there has been no material adverse change in its financial position since its date of incorporation. The Issuers are not, and have not since incorporation been, involved in any litigation, governmental or arbitration proceedings relating to claims in amounts which may have or have had a material effect on the Issuers in the context of the issue of the Notes, nor, so far as either of the Issuers is aware, is any such litigation or arbitration involving it pending or threatened.

4. Each of the Issuers represents that there has been no material adverse change in its financial position since its date of incorporation. The Issuers are not, and have not since incorporation been, involved in any litigation, governmental or arbitration proceedings relating to claims in amounts which may have or have had a material effect on the Issuers in the context of the issue of the Notes, nor, so far as either of the Issuers is aware, is any such litigation or arbitration involving it pending or threatened.

5. The issuance of the Notes will be authorized by the Board of Directors of the Issuer by resolutions passed on or before the Closing Date. The issuance of the Notes will be authorized by the Board of Directors of the Co-Issuer by resolutions to be passed on or before the Closing Date. Since incorporation, 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. It is estimated that the fees payable in respect of the listing of the Notes on the Irish Stock Exchange will be approximately $[7,500] consisting of Irish Stock Exchange listing fees, listing agent sponsor fees and fees to be annually paid to the Irish Paying Agent.

6. The Notes sold in offshore transactions in reliance on Regulation S under the Securities Act and represented by the Global Notes have been accepted for clearance through Clearstream and Euroclear under the Common Codes indicated below. The CUSIP Numbers and International Securities Identification Numbers (ISIN) for the Notes represented by Regulation S Global Notes and Restricted Global Notes are as indicated on the following page.

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	Regulation S Common Codes	Regulation S CUSIP Numbers	Regulation S ISIN Numbers	Restricted Common Codes	Restricted CUSIP Numbers	Restricted ISIN Numbers
Class A-1 Notes	[]	[]	[]	[]	[]	[]
Class A-2 Notes	[]	[]	[]	[]	[]	[]
Class B Notes	[]	[]	[]	[]	[]	[]
Class C Notes	[]	[]	[]	[]	[]	[]
Class D Notes	[]	[]	[]	[]	[]	[]
Class E Notes	[]	[]	[]	[]	[]	[]

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LEGAL MATTERS

Certain legal matters with respect to the Notes and New York law will be passed upon for the Issuer by Allen & Overy LLP. Allen & Overy LLP will also act as counsel to the Initial Purchaser. Cadwalader, Wickersham & Taft LLP will act as counsel to the Collateral Manager. Certain matters with respect to Cayman Islands corporate law and tax law will be passed upon for the Issuer by Maples and Calder.

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SCHEDULE A

LIST OF UNDERLYING ASSETS

Security	CUSIP	Current Face	Legal Maturity	Moody's Type	Fixed/ Float	Fixed Coupon	Floating Spread/ CDS Premium	Explicit S&P Rating	Explicit Moody's Rating

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Security	CUSIP	Current Face	Legal Maturity	Moody's Type	Fixed/ Float	Fixed Coupon	Floating Spread/ CDS Premium	Explicit S&P Rating	Explicit Moody's Rating

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Footnote Exhibits - Page 1917

Security	CUSIP	Current Face	Legal Maturity	Moody's Type	Fixed/ Float	Fixed Coupon	Floating Spread/ CDS Premium	Explicit S&P Rating	Explicit Moody's Rating

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Security	CUSIP	Current Face	Legal Maturity	Moody's Type	Fixed/ Float	Fixed Coupon	Floating Spread/ CDS Premium	Explicit S&P Rating	Explicit Moody's Rating

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SCHEDULE B

AUCTION CALL REDEMPTION – AUCTION PROCEDURES

The following sets forth the auction procedures (the "**Auction Procedures**") to be followed in connection with a sale effected pursuant to the Indenture.

I. Pre-Auction Process

- The Auction Agent will initiate the Auction Procedures at least 24 Business Days prior to each Auction Date by:
  - with the assistance of the Collateral Manager, preparing a list containing the names of the issuer and guarantor (if any), the par amount and the CUSIP number (if any) with respect to each Underlying Asset and such other information as shall be notified to the Auction Agent by the Collateral Manager;
  - with the assistance of the Collateral Manager, preparing a list of the constituents of each subpool which shall be based upon the Collateral Manager's good faith determination of the composition of subpools that will maximize Disposition Proceeds; *provided* that the maximum number of subpools shall be eight; and
  - directing the Trustee to send the lists prepared pursuant to clauses (i) and (ii) above to the Qualified Bidders identified on the then-current Qualified Bidder List (the "**Listed Bidders**") and requesting bids on the Auction Date.
- The general solicitation package which the Auction Agent shall deliver to the Listed Bidders will include: (i) a form of a purchase agreement (which shall, among other things, provide that (A) upon satisfaction of all conditions precedent therein, the purchaser is irrevocably obligated to acquire, and the Issuer is irrevocably obligated to Dispose of, the Underlying Assets (or relevant subpool, as the case may be) on the date and on the terms and conditions set forth therein and (B) if the subpools are to be sold to more than one bidder, the consummation of the purchase of each subpool must occur simultaneously and the closing of each purchase is conditional on the closing of each of the other purchases); (ii) the minimum purchase price; (iii) a formal bidsheet (which shall permit the relevant bidder to bid for all of the Underlying Assets, any subpool or separately for each of the subpools) including a representation from the bidder that it is eligible to acquire all of the Underlying Assets; (iv) a detailed timetable; and (v) copies of all transfer documents (including transfer certificates and subscription agreements which a bidder must execute pursuant to the Underlying Instruments and a list of the requirements which the bidder must satisfy under the Underlying Instruments (i.e., Qualified Institutional Buyer, Qualified Purchaser, etc.)).
- The Auction Agent shall send solicitation packages to all Listed Bidders at least 15 Business Days before the Auction Date. No later than 10 Business Days before the Auction Date, Listed Bidders may submit written due diligence questions relating to the legal documentation and other information contained in the general solicitation package (including comments on the draft purchase agreement to be used in connection with the Auction (the "**Auction Purchase Agreement**")) to the Collateral Manager; *provided* that the Collateral Manager shall only be obligated to answer questions relating to the Collateral to the extent that it is able to do so by reference to information which it is

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required to provide under the Management Agreement. The Collateral Manager shall be solely responsible for (i) responding to all relevant questions and/or comments submitted to it in accordance with the foregoing and (ii) distributing the questions, answers and revised final Auction Purchase Agreement to all Listed Bidders at least five Business Days prior to the Auction Date.

II. Auction Process

- If it is not the Auction Agent, the Collateral Manager or its Affiliates will be allowed to bid in the Auction if it deems appropriate, but will not be required to do so.
- On the Auction Date, all bids will be due by facsimile to the offices of the Auction Agent by 11:00 a.m., New York City time, with the winning bidder to be notified by 2:00 p.m., New York City time. All bids from Listed Bidders will be due on the bid sheet contained in the solicitation package. Each bid shall be for the purchase and delivery to one purchaser of (i) all (but not less than all) of the Underlying Assets or (ii) all (but not less than all) of the Underlying Assets that constitute the components of one or more subpools.
- If the Auction Agent receives fewer than two bids from Listed Bidders to purchase all of the Underlying Assets or to purchase each subpool, the Auction Agent shall decline to consummate the sale.
- Subject to clause (c), the Auction Agent shall identify as the winning bidder the bid or bids that result in the Highest Auction Price (in excess of the minimum purchase price) from one or more Listed Bidders.
- Upon notification to the winning bidder(s), the winning bidder (or, if the Highest Auction Price requires the sale of subpools to more than one bidder, each winning bidder) will be required to deliver to the Auction Agent a signed counterpart of the Auction Purchase Agreement no later than 4:00 p.m. New York City time on the Auction Date. The winning bidder (or, if the Highest Auction Price requires the sale of subpools to more than one bidder, each winning bidder) shall be required to pay the full purchase price in cash prior to the sixth Business Day following the relevant Auction Date, at which time all monies will be transferred into the Collection Account. If payment in full of the purchase price is not made when due (or, if the subpools are to be sold to more than one bidder, if any bidder fails to make payment of the purchase price when due), the Trustee on behalf of the Issuer shall decline to consummate the sale of each subpool and shall give notice (in accordance with the Indenture) that the Auction Call Redemption will not occur.
- **"Highest Auction Price"** means, with respect to an Auction Call Redemption, the greater of (a) the highest price bid by any Listed Bidder for all of the Underlying Assets and (b) the sum of the highest prices bid by one or more Listed Bidders for each subpool. In each case, the price bid by a Listed Bidder shall be the Dollar amount which the Auction Agent certifies to the Trustee based on the Auction Agent's review of the bids, which certification shall be binding and conclusive.
- **"Qualified Bidder"** means (a) a Person whose unsecured debt obligations have been assigned, or whose obligations under the bid letter and resulting purchase agreement will be guaranteed by a Person whose unsecured debt obligations have been assigned, a rating equivalent to the highest rating on the Notes or an unsecured short-term rating of "A-1+" by Standard & Poor's and "F-1" by Fitch, (b) a Person who the Auction Agent

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believes to be an active purchaser of Asset-Backed Securities with the financial resources available to it to pay the purchase price of the Underlying Assets in a timely fashion, or (c) the Collateral Manager or any of its Affiliates; *provided* that with respect to the Synthetic Securities entered into with the First Synthetic Security Counterparty, the Issuer may, upon reasonable notice to the First Synthetic Security Counterparty, transfer to an Eligible Counterparty, as such term is defined in the schedule to the Master Agreement, or to any other counterparty, in regard to which the First Synthetic Security Counterparty will have the right to approve or disapprove of any novation of such Synthetic Security by the Issuer.

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SCHEDULE C

STANDARD & POOR'S RATING

The Standard & Poor's Rating of any Underlying Asset (which shall mean with respect to a Synthetic Security, the related Reference Obligation) will be determined as follows:

(i) if such Underlying Asset is rated either publicly or privately (with appropriate consents) by Standard & Poor's, the Standard & Poor's Rating shall be such rating, or, if such Underlying Asset 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 perform a credit estimate in respect of such Underlying Asset, 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, such Underlying Asset shall have a Standard & Poor's Rating of "CCC-" if the Collateral Manager believes that such estimate will be at least "CCC-"; and

(ii) with respect to any other Underlying Asset, as set forth below.

Part 1 - Standard & Poor's Ratings

Asset classes are eligible for notching if they are not first loss tranches or combination securities. If the security is publicly rated by two agencies, notch down as shown below based on the lowest rating. If the security is publicly rated only by one agency, then notch down what is shown below *plus* one more notch. The Aggregate Principal/Notional Balance of Underlying Assets the Standard & Poor's Rating of which is based on a Fitch rating or a Moody's rating may not exceed 20% of the Aggregate Principal/Notional Balance of all Underlying Assets, the balance of which must be rated by Standard & Poor's or assigned Standard & Poor's rating estimates.

	Issued prior to 8/1/01 Current rating is:		Issued after 8/1/01 Current rating is:	
	Inv. Grade	Non Inv. Grade	Inv. Grade	Non Inv. Grade
1. CONSUMER ABS	-1	-2	-2	-3
Automobile Loan Receivable Securities				
Automobile Lease Receivable Securities				
Car Rental Receivables Securities				
Credit Card Securities				
Healthcare Securities				
Student Loan Securities				
2. COMMERCIAL ABS	-1	-2	-2	-3
Cargo Securities				
Equipment Lease Securities				
Aircraft Leasing Securities				

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	Issued prior to 8/1/01 Current rating is:		Issued after 8/1/01 Current rating is:	
	Inv. Grade	Non Inv. Grade	Inv. Grade	Non Inv. Grade
Small Business Loan Securities				
Restaurant and Food Services Securities				
3. Non-RE-REMIC RMBS	-1	-2	-2	-3
Manufactured Housing Loan Securities				
4. Non-RE-REMIC CMBS	-1	-2	-2	-3
CMBS – Conduit				
CMBS - Credit Tenant Lease				
CMBS – Large Loan				
CMBS – Single Borrower				
CMBS – Single Property				
5. CBO/CLO CASHFLOW SECURITIES	-1	-2	-2	-3
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				
6. REITs	-1	-2	-2	-3
REIT – Multifamily & Mobile Home Park				
REIT – Retail				
REIT – Hospitality				
REIT – Office				
REIT – Industrial				
REIT – Healthcare				
REIT – Warehouse				
REIT – Self Storage				
REIT – Mixed Use				
7. SPECIALTY STRUCTURED	-3	-4	-3	-4
Stadium Financings				
Project Finance				
Future flows				

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	Issued prior to 8/1/01 Current rating is:		Issued after 8/1/01 Current rating is:	
	Inv. Grade	Non Inv. Grade	Inv. Grade	Non Inv. Grade
8. RESIDENTIAL MORTGAGES	-1	-2	-2	-3
Residential "A"				
Residential "B/C"				
Home equity loans				
9. REAL ESTATE OPERATING COMPANIES	-1	-2	-2	-3

Part 2 - Standard & Poor's Asset Backed Categories

Each of the following categories of asset backed security shall constitute a separate asset backed class. Securities not included in any of these categories shall be assigned by Standard & Poor's.

Structured Finance Sectors

1. ABS Consumer
2. ABS Commercial
3. CDOs
4. CMBS Diversified – Conduit and CTL
5. CMBS – Large Loan, Single Borrower and Single Property
6. REITs
7. RMBS A
8. RMBS B&C, HELs, HELOCs and Tax Lien
9. Manufactured Housing
10. Project Finance
11. U.S. Agency – Explicitly Guaranteed
12. Monoline/FER Guaranteed
13. Non-FER Company Guaranteed
14. FFELP Student Loan (Over 70% FFELP)

Part 3 - Standard & Poor's Asset Classes Not Eligible to be Notched

The following asset classes are not eligible to be notched. Credit estimates must be performed.

Asset Type

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

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9. Synthetics
10. Synthetic CBOs
11. Combination Securities
12. Re-REMICs
13. Market value CDOs
14. Net Interest Margin Securities (NIMs)
15. Structured Settlement Obligations
16. Any asset class not listed on Part 1 above

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SCHEDULE D

MOODY'S RATING AND MOODY'S WEIGHTED AVERAGE RATING

The **"Weighted Average Rating"** on any Measurement Date is the number determined by dividing (i) the sum of the series of products obtained for Underlying Assets (other than Underlying Asset which the Asset Manager reasonably believes will default with respect to payment when next due and any Defaulted Securities) by multiplying the Principal/Notional Balance on such Measurement Date of each such Underlying Asset by its respective Moody's Rating Factor on such Measurement Date by (ii) the sum of the Aggregate Principal/Notional Balance on such Measurement Date of all Underlying Assets that are not Underlying Assets which the Asset Manager reasonably believes will default with respect to payment when next due and any Defaulted Securities.

The **"Moody's Rating Factor"** relating to any Underlying Asset is the number set forth in the table below opposite the Moody's Rating of such Underlying Asset:

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

The **"Moody's Rating"** of any Underlying Asset (which shall mean with respect to a Synthetic Security, the related Reference Obligation) will be determined as follows:

with respect to any Asset-Backed Security, for determining the Moody's Rating as of any date of determination:

(i) if such Asset-Backed Security is publicly rated by Moody's, the Moody's Rating shall be such rating, or, if such Underlying Asset 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 Underlying Asset, the Moody's Rating shall be the rating so assigned by Moody's;

(ii) if such Asset-Backed Security is not publicly rated by Moody's, then the Moody's Rating of such Asset-Backed Security may be determined using any one of the methods below:

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(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 (1) one subcategory below the Moody's equivalent rating assigned by Standard & Poor's if the rating assigned by Standard & Poor's is "AAA"; (2) two 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 (3) three rating subcategories below the Moody's equivalent rating assigned by Standard & Poor's if the rating assigned by Standard & Poor's is below "BBB-"; and

(B) with respect to any other type of Asset-Backed Securities, pursuant to any method specified by Moody's;

provided that

(V) the rating of either Rating Agency used to determine the Moody's Rating pursuant to any of clauses (i) or (ii) above shall be a public, non-exclusive rating (but not a rating estimate) that addresses the obligation of the obligor to pay principal of and interest on the relevant Underlying Asset in full and is monitored on an ongoing basis by the relevant Rating Agency,

(W) the Aggregate Principal/Notional Balance of Underlying Assets the Moody's Rating of which is based on a Standard & Poor's Rating may not exceed 20% of the Aggregate Principal/Notional Balance of all Underlying Assets, the balance of which must be rated by Moody's or assigned Moody's rating estimates,

(X) the ratings of no more than [10]% of the Aggregate Principal/Notional Balance of all Underlying Assets may be assigned rating factors derived via notching from single-rated instruments,

(Y) with respect to any one Rating Agency, the single-rated notched bucket may be no larger than 7.5% of the Aggregate Principal/Notional Balance of all Underlying Assets and

(Z) if an Underlying Asset

(A) is placed on a watch list for possible upgrade by Moody's, the Moody's Rating applicable to such Underlying Asset shall be two rating subcategories above the Moody's Rating applicable to such Underlying Asset immediately prior to such Underlying Asset being placed on such watch list, if such Underlying Asset is rated below "Aaa" by Moody's unless rated "Aa1", in which case only one subcategory above; and

(B) is placed on a watch list for possible downgrade by Moody's, the Moody's Rating applicable to such Underlying Asset shall be (i) one rating subcategory below the Moody's Rating applicable to such Underlying Asset immediately prior to such Underlying Asset being placed on such watch list, if such Underlying Asset is rated "Aaa" by Moody's or (ii) two rating subcategories below the Moody's Rating applicable to such Underlying Asset immediately prior to such Underlying Asset being placed on such watch list, if such Underlying Asset is rated below "Aaa" by Moody's; and

provided further that, with respect to notched ratings on certain asset classes, the Moody's Rating shall be determined in conjunction with the notching conventions set forth below.

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Standard & Poor's

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 an Standard & Poor's rating of BBB implies a Moody's rating of Baa3.)

ASSET CLASS	AAA to AA-	A+ to BBB-	Below BBB-
Auto loan	1	2	3
Car Rental Fleet	1	2	3
CDO Domestic Corporate Debt	No notching permitted	No notching permitted	No notching permitted
CDO Structured Product	No notching permitted	No notching permitted	No notching permitted
Consumer Asset-Backed	1	2	3
Credit Card	1	2	3
Equipment Lease	1	2	3
Manufactured Housing	1	2	3
Small Business Loan	1	2	3
Student Loan	1	2	3

Residential Mortgage Related (note that rating category groups differ here from above)	AAA	AA+ to BBB-	Below BBB-
Jumbo A	1	2	3
Alt-A or mixed pools	1	3	4
HEL (including Residential A and Residential B&C)	1	2	3

Fitch

The following notching conventions are with respect to Fitch:

Residential Mortgage Related	AAA	AA+ to BBB-	Below BBB-
Jumbo A	1	2	4
Alt-A or mixed pools	1	3	5
HEL (including Residential A and Residential B&C)	No notching	No notching	No notching

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 from above, then go up by 1/2 notch. For dual-rated HEL (including Residential A and Residential B&C) transactions, apply the Standard & Poor's-only rated tranche notching guidelines as set forth above.

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CMBS

The following CMBS notching conventions are with respect to S&P and Fitch:

Commercial Mortgage Backed Securities		
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**
Conduit*	2 notches from lower of Fitch/S&P	1.5** notches from lower of Fitch/S&P
Credit Tenant Lease	Follow corporate notching practice	Follow corporate notching practice
Large Loan	No notching permitted	

* 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.

** A 1.5 notch 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 the Ba1 rating factors.

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SCHEDULE E

STANDARD & POOR'S RECOVERY MATRIX

A. If the Underlying Asset (which shall mean with respect to a Synthetic Security, the related Reference Obligation) is an Asset-Backed Security (other than a CMBS Security) and is the senior-most tranche of securities issued by the issuer of such Underlying Asset:

Initial Standard & Poor's Rating of the Underlying Asset at Issuance	Liability Rating assigned by Standard & Poor's						
		AA+	A+	BBB+	BB+	B+	CCC+
		AA	A	BBB	BB	B	CCC
	AAA	AA-	A-	BBB-	BB-	B-	CCC-
AAA	80.0%	85.0%	90.0%	90.0%	90.0%	90.0%	90.0%
AA+, AA, AA-	70.0%	75.0%	85.0%	90.0%	90.0%	90.0%	90.0%
A+, A, A-	60.0%	65.0%	75.0%	85.0%	90.0%	90.0%	90.0%
BBB+, BBB, BBB-	50.0%	55.0%	65.0%	75.0%	85.0%	85.0%	85.0%

B. If the Underlying Asset (which shall mean with respect to a Synthetic Security, the related Reference Obligation) is an Asset-Backed Security (other than a CMBS Security) and is not the senior-most tranche of securities issued by the issuer of such Underlying Asset:

Initial Standard & Poor's Rating of the Underlying Asset at Issuance	Liability Rating assigned by Standard & Poor's						
		AA+	A+	BBB+	BB+	B+	CCC+
		AA	A	BBB	BB	B	CCC
	AAA	AA-	A-	BBB-	BB-	B-	CCC-
AAA	65.0%	70.0%	80.0%	85.0%	85.0%	85.0%	85.0%
AA+, AA, AA-	55.0%	65.0%	75.0%	80.0%	80.0%	80.0%	80.0%
A+, A, A-	40.0%	45.0%	55.0%	65.0%	80.0%	80.0%	80.0%
BBB+, BBB, BBB-	30.0%	35.0%	40.0%	45.0%	50.0%	60.0%	70.0%
BB+, BB, BB-	10.0%	10.0%	10.0%	25.0%	35.0%	40.0%	50.0%
B+, B, B-	2.5%	5.0%	5.0%	10.0%	10.0%	20.0%	25.0%
CCC+, CCC, CCC-	0.0%	0.0%	0.0%	0.0%	2.5%	5.0%	5.0%

C. If the Underlying Asset (which shall mean with respect to a Synthetic Security, the related Reference Obligation) is a CMBS Security:

Initial Standard & Poor's Rating of the Underlying Asset at Issuance	Liability Rating assigned by Standard & Poor's						
		AA+	A+	BBB+	BB+	B+	CCC+
		AA	A	BBB	BB	B	CCC
	AAA	AA-	A-	BBB-	BB-	B-	CCC-
AAA	80.0%	85.0%	90.0%	90.0%	90.0%	90.0%	90.0%
AA+, AA, AA-	70.0%	75.0%	85.0%	90.0%	90.0%	90.0%	90.0%
A+, A, A-	60.0%	65.0%	75.0%	85.0%	90.0%	90.0%	90.0%
BBB+, BBB, BBB-	45.0%	50.0%	55.0%	60.0%	65.0%	70.0%	75.0%
BB+, BB, BB-	35.0%	40.0%	45.0%	45.0%	50.0%	50.0%	50.0%

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Initial Standard & Poor's Rating of the Underlying Asset at Issuance	Liability Rating assigned by Standard & Poor's						
	AAA	AA+ AA AA-	A+ A A-	BBB+ BBB BBB-	BB+ BB BB-	B+ B B-	CCC+ CCC CCC-
B+, B, B-	20.0%	25.0%	30.0%	35.0%	35.0%	40.0%	40.0%
CCC+, CCC, CCC-	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
NR	0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

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SCHEDULE F

MOODY'S RECOVERY RATE MATRIX

The recovery rate with respect to a Synthetic Security will be calculated using the related Reference Obligation.

ABS Type Diversified ABS Securities[1]:

% of Underlying Capital Structure[2]	Initial Rating of Underlying Asset[3]					
	Aaa	Aa	A	Baa	Ba	B
>70%	85%	80%	70%	60%	50%	[40]%
<=70%, >[10]%	75%	70%	60%	50%	[40]%	30%
<=[10]%	70%	65%	55%	45%	35%	25%

ABS Type Diversified Residential Securities[4]:

% of Underlying Capital Structure[2]	Initial Rating of Underlying Asset[3]					
	Aaa	Aa	A	Baa	Ba	B
>70%	85%	80%	65%	55%	45%	30%
<=70%, >[10]%	75%	70%	55%	45%	35%	25%
<=[10]%, >5%	65%	55%	45%	[40]%	30%	20%
<=5%, >2%	55%	45%	[40]%	35%	25%	[15]%
<=2%	45%	35%	30%	25%	[15]%	[10]%

ABS Type Undiversified ABS Securities[5]:

% of Underlying Capital Structure[2]	Initial Rating of Underlying Asset[3]					
	Aaa	Aa	A	Baa	Ba	B
>70%	85%	80%	65%	55%	45%	30%
<=70%, >[10]%	75%	70%	55%	45%	35%	25%
<=[10]%, >5%	65%	55%	45%	35%	25%	[15]%
<=5%, >2%	55%	45%	35%	30%	20%	[10]%
<=2%	45%	35%	25%	20%	[10]%	5%

ABS Type Low-Diversity CDO Securities[6]:

% of Underlying Capital Structure[2]	Initial Rating of Underlying Asset[3]					
	Aaa	Aa	A	Baa	Ba	B
>70%	80%	75%	60%	50%	45%	30%
<=70%, >[10]%	70%	60%	55%	45%	35%	25%
<=[10]%, >5%	60%	50%	45%	35%	25%	[15]%
<=5%, >2%	50%	[40]%	35%	30%	20%	[10]%
<=2%	30%	25%	20%	[15]%	7%	4%

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ABS Type High-Diversity CDO Securities[7]:

% of Underlying Capital Structure[2]	Initial Rating of Underlying Asset[3]					
	Aaa	Aa	A	Baa	Ba	B
>70%	85%	80%	65%	55%	45%	30%
<=70%, >[10]%	75%	70%	60%	50%	[40]%	25%
<=[10]%, >5%	65%	55%	50%	[40]%	30%	20%
<=5%, >2%	55%	45%	[40]%	35%	25%	[10]%
<=2%	45%	35%	30%	25%	[10]%	5%

[1] **"ABS Type Diversified ABS Securities"** refer to Automobile Securities, Car Rental Fleet Securities, Credit Card Securities and Student Loan Securities.

[2] Initial par amount of tranche to which such Underlying Asset relates divided by initial par amount of total securities issued by such Underlying Asset issuer.

[3] The recovery rate for Underlying Assets with a Moody's Rating of Caa1, Caa2 or Caa3 is assumed to be [10]%.

[4] **"ABS Type Diversified Residential Securities"** refer to Residential A Mortgage-Backed Securities, Residential B/C Mortgage-Backed Securities, Non-Subprime Home Equity Loan Asset-Backed Securities and Manufactured Housing Securities.

[5] **"ABS Type Undiversified ABS Securities"** refer to Equipment Lease Securities, Small Business Loan Securities and CMBS Securities.

[6] **"ABS Type Low-Diversity CDO Securities"** refer to any CDO Securities that are not High-Diversity Securities.

[7] **"ABS Type High-Diversity CDO Securities"** refer to any CDO Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from a portfolio of commercial and industrial bank loans, other asset-backed securities or corporate debt securities (or any combination of the foregoing) that are obligations of obligors or issuers that represent a relatively diversified pool of obligor credit risk having a Moody's Asset Correlation Factor lower than 20% or a Moody's diversity score higher than 15. The **"Moody's Asset Correlation Factor"** is a single number determined in accordance with the asset correlation methodology provided from time to time by Moody's and listed in the latest Monthly Report or indenture of such CDO Security.

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SCHEDULE G

CLASS D PRIORITY REDEMPTION AMOUNT

The Class D Priority Redemption Amount on each Distribution Date during the Priority Distribution Period will be as follows:

Distribution Date	Class D Priority Redemption Amount
[] 2008	$[]
[] 2008	$[]
[] 2008	$[]
[] 2008	$[]
[] 2009	$[]
[] 2009	$[]
[] 2009	$[]
[] 2009	$[]
[] 2010	$[]
[] 2010	$[]
[] 2010	$[]
[] 2010	$[]

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SCHEDULE H

FORM OF CONFIRMATION FOR RMBS SECURITIES

Deutsche Bank AG

Date: [ ]

To: Gemstone CDO VII Ltd.

Fax No: [ ]

From: Deutsche Bank AG, acting through its London Branch

RE: Credit Derivative Transaction on Mortgage-Backed Security with Pay-As-You-Go or Physical Settlement (Form I) (Dealer Form) (RMBS)

Dear Sir/Madam

The purpose of this communication (the "Confirmation") is to confirm the terms and conditions of the Credit Derivative Transaction relating to a mortgage-backed security reference obligation entered into between you Gemstone CDO VII Ltd. ("Party B") and us Deutsche Bank AG, acting through its London Branch ("Party A") on the Trade Date specified below (the "Transaction"). This Confirmation constitutes a "Confirmation" as referred to in the ISDA Master Agreement specified below.

The definitions and provisions contained in the 2003 ISDA Credit Derivatives Definitions (the "Credit Derivatives Definitions"), as published by the International Swaps and Derivatives Association, Inc. ("ISDA") and the ISDA Standard Terms Supplement for use with Credit Derivatives Transaction on Mortgage-Backed Security with Pay-As-You-Go or Physical Settlement, as published by ISDA on November 10, 2006 (the "CDS on MBS Terms"), and, if (i) the Additional Provisions for Optional Early Termination have been published by ISDA at the Trade Date and (ii) Optional Early Termination is specified as being applicable, the Additional Provisions for Optional Early Termination most recently published by ISDA, are incorporated into this Confirmation. In the event of any inconsistency between the Credit Derivatives Definitions or the CDS on MBS Terms and this Confirmation, this Confirmation will govern. In the event of any inconsistency between the CDS on MBS Terms and the Credit Derivatives Definitions, the CDS on MBS Terms will govern.

This Confirmation supplements, forms a part of, and is subject to, the ISDA Master Agreement, dated as of [-], 2007, as amended and supplemented from time to time (the "Agreement"), between you and us. All provisions contained in the Agreement govern this Confirmation except as expressly modified below.]

The terms of the Transaction to which this Confirmation relates are as follows:

Trade Date: [ ]

Effective Date: [ ]

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Floating Rate Payer:	Party B (the "Seller").
Fixed Rate Payer:	Party A (the "Buyer").
Calculation Agent:	Party A, unless an Event of Default has occurred and is continuing with respect to Party A, in which case the Calculation Agent shall be a leading, independent dealer in derivatives selected by agreement between the parties within one Business Day of such Event of Default (the "Substitute Calculation Agent"), whose fees and expenses shall be met by Party A, whilst such Event of Default is continuing. If the parties are unable to agree on a Substitute Calculation Agent, each of the parties shall elect an independent dealer in derivatives and such two dealers shall agree on a third party, who shall be deemed to be the Substitute Calculation Agent. Party A shall be appointed to replace the Substitute Calculation Agent within one Business Day of the date on which no Event of Default is continuing in respect of Party A. All determinations by the Calculation Agent shall be made in good faith and in a commercially reasonable manner.
Calculation Agent City:	New York
Business Day:	New York and London
Reference Entity:	[ ]
Reference Obligation:	The obligation identified as follows: [Insurer: [ ]] CUSIP/ISIN: [ ] [Bloomberg ID: [ ]] Legal final maturity date: [ ] Original Principal Amount: [ ]. Initial Factor: [ ] Issuer: The Reference Entity]
Reference Policy:	Not Applicable
Reference Price:	[●]%
Initial Face Amount:	[ ]
Initial Payment:	[Not Applicable] [On [the Effective Date], [Buyer]/[Seller] will pay [USD][ ] to [Seller]/[Buyer].]
Fixed Rate:	[ ]% per annum
Fixed Rate Payer Payment Dates:	Not CMBS Convention

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Fixed Amount:	Fixed Amount definition for underlying with no payment delay
Additional Credit Event:	Distressed Ratings Downgrade
Interest Shortfall Cap:	Applicable
WAC Cap Interest Provision:	Not Applicable
Step-up provisions:	Applicable

If Interest Shortfall Cap is applicable, then specify:

Interest Shortfall Cap Basis:	Fixed Cap
Interest Shortfall Compounding:	Applicable
Rate Source:	USD-LIBOR-BBA
Optional Early Termination:	Not Applicable
Additional Terms:	The definition of "Fixed Amount" in the CDS on MBS Terms shall be deleted and replaced in its entirety with the following:

"With respect to any Fixed Rate Payer Payment Date, an amount equal to the product of:

(a) the Fixed Rate;

(b) an amount determined by the Calculation Agent equal to:

(i) the sum of the Reference Obligation Notional Amount (as calculated without taking into consideration any adjustment in the Reference Obligation Notional Amount due to an Implied Writedown Amount) as at 5:00 p.m. in the Calculation Agent City on each day in the related Fixed Rate Payer Calculation Period; divided by

(ii) the actual number of days in the related Fixed Rate Payer Calculation Period; and

(c) the actual number of days in the related Fixed Rate Payer Calculation Period divided by 360."

Office, Notice and Account Details:

The Office of Buyer for this Transaction is: George Town, Grand Cayman, Cayman Islands

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The Office of Seller for this Transaction is: London

Telephone, Telex and/or Facsimile Numbers and Contact Details for Notices:

Buyer:	Attention: New York Derivatives Documentation
Telephone:	(212) 250-9425
Fax:	(212) 797-0779
Email:	NYderivative.documentation@db.com
Seller:	[ ]
Account Details:	
Account Details of Buyer:	[ ]
Account Details of Seller:	[ ]

Please confirm your agreement to be bound by the terms of the foregoing by executing a copy of this Confirmation and returning it to us by facsimile.

Yours sincerely,

DEUTSCHE BANK AG, ACTING THROUGH ITS LONDON BRANCH

By:_____

Name:
Title:

By:_____

Name:
Title:

Confirmed as of the date first above written:

GEMSTONE CDO VII LTD.
By HBK Investments, L.P., as its Investment Manager

By:_____

Name:
Title:

By:_____

Name:
Title:

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ISDA STANDARD TERMS SUPPLEMENT FOR USE WITH CREDIT DERIVATIVE TRANSACTIONS ON MORTGAGE-BACKED SECURITY WITH PAY-AS-YOU-GO OR PHYSICAL SETTLEMENT[1]

(published on November 10, 2006)

This ISDA Standard Terms Supplement for use with Credit Derivative Transactions on Mortgage-Backed Security with Pay-As-You-Go or Physical Settlement (the "CDS on MBS Terms") hereby incorporates by reference the definitions and provisions contained in the 2003 ISDA Credit Derivatives Definitions as published by the International Swaps and Derivatives Association, Inc. ("ISDA") (the "Credit Derivatives Definitions"). In the event of any inconsistency between the Credit Derivatives Definitions and these CDS on MBS Terms, these CDS on MBS Terms will govern.[2]

References to the "Reference Obligation" in these CDS on MBS Terms or in the relevant Confirmation shall be to the terms of the Reference Obligation (as defined below) set out in the Underlying Instruments (as defined below) as amended from time to time unless otherwise specified below.

1. **General Terms:**

Trade Date:	As shown in the relevant Confirmation.
Effective Date:	As shown in the relevant Confirmation.
Scheduled Termination Date:	Subject to paragraph 6, the Legal Final Maturity Date of the Reference Obligation, subject to adjustment in accordance with the Following Business Day Convention.

THE FOOTNOTES TO THIS CDS ON MBS STANDARD TERMS SUPPLEMENT ARE PROVIDED FOR CLARIFICATION ONLY AND DO NOT CONSTITUTE ADVICE AS TO THE STRUCTURING OR DOCUMENTATION OF A CREDIT DERIVATIVE TRANSACTION.

ISDA has not undertaken to review all applicable laws and regulations of any jurisdiction in which the Credit Derivatives Definitions or these CDS on MBS Terms may be used. Therefore, parties are advised to consider the application of any relevant jurisdiction's regulatory, tax, accounting, exchange or other requirements that may exist in connection with the entering into and documenting of a privately negotiated credit derivative transaction.

[1] The definitions and provisions in this ISDA Standard Terms Supplement for use with Credit Derivatives Transactions on Mortgage-Backed Security with Pay-As-You-Go or Physical Settlement may be incorporated into a Confirmation or other document (including in electronic form) (a "**Confirmation**") by wording in the Confirmation indicating that, or the extent to which, the Confirmation is subject to this ISDA Standard Terms Supplement for use with Credit Derivatives Transactions on Mortgage-Backed Security with Pay-As-You-Go or Physical Settlement. All definitions and provisions so incorporated in a Confirmation will be applicable to that Confirmation unless otherwise provided in that Confirmation.

[2] Parties who wish to novate a trade documented by way of a Confirmation incorporating these CDS on MBS Terms should consider using the Form of Novation Confirmation set out in the Schedule to this ISDA Standard Terms Supplement.

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Termination Date:	The last to occur of: (a) the fifth Business Day following the Effective Maturity Date; (b) the last Floating Rate Payer Payment Date; (c) the last Delivery Date; and (d) the last Additional Fixed Amount Payment Date.
Floating Rate Payer:	As shown in the relevant Confirmation (the "Seller").
Fixed Rate Payer:	As shown in the relevant Confirmation (the "Buyer").
Calculation Agent:	As shown in the relevant Confirmation.
Calculation Agent City:	As shown in the relevant Confirmation.
Business Day:	As shown in the relevant Confirmation.
Business Day Convention:	Following (which, with the exception of the Effective Date, the Final Amortization Date, each Reference Obligation Payment Date and the period end date of each Reference Obligation Calculation Period, shall apply to any date referred to in these CDS on MBS Terms or in the Relevant Confirmation that falls on a day that is not a Business Day).
Reference Entity:	As shown in the relevant Confirmation.
Reference Obligation:	As shown in the relevant Confirmation. Section 2.30 of the Credit Derivatives Definitions shall not apply.
Reference Policy:	As shown in the relevant Confirmation.
Reference Price:	As shown in the relevant Confirmation.
Applicable Percentage:	On any day, a percentage equal to A divided by B. "A" means the product of the Initial Face Amount and the Initial Factor as decreased on each Delivery Date by an amount equal to (a) the outstanding principal balance of Deliverable Obligations Delivered to Seller (as adjusted by the Relevant Amount, if any) divided by the Current Factor on such day multiplied by (b) the Initial Factor. "B" means the product of the Original Principal Amount and the Initial Factor; (a) as increased by the outstanding principal

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balance of any further issues by the Reference Entity that are fungible with and form part of the same legal series as the Reference Obligation; and

(b) as decreased by any cancellations of some or all of the Outstanding Principal Amount resulting from purchases of the Reference Obligation by or on behalf of the Reference Entity.[3]

Initial Face Amount: As shown in the relevant Confirmation.

Reference Obligation Notional Amount: On the Effective Date, the product of:

(a) the Original Principal Amount;

(b) the Initial Factor; and

(c) the Applicable Percentage.

Following the Effective Date, the Reference Obligation Notional Amount will be:

(i) decreased on each day on which a Principal Payment is made by the relevant Principal Payment Amount;

(ii) decreased on the day, if any, on which a Failure to Pay Principal occurs by the relevant Principal Shortfall Amount;

(iii) decreased on each day on which a Writedown occurs by the relevant Writedown Amount;

(iv) increased on each day on which a Writedown Reimbursement occurs by any Writedown Reimbursement Amount in respect of a Writedown Reimbursement within paragraphs (ii) or (iii) of the definition of "Writedown Reimbursement"; and

(v) decreased on each Delivery Date by an amount equal to the relevant Exercise Amount minus the amount determined pursuant to paragraph (b) of "Physical Settlement Amount" below, provided that if any Relevant Amount is applicable, the Exercise Amount will also be deemed to be decreased by such Relevant Amount (or increased by the absolute value of such Relevant Amount if such Relevant Amount is negative) with effect from such

[3] This represents the percentage covered by the relevant Transaction of the Outstanding Principal Amount. It may be more than 100%.

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Delivery Date;

provided that if the Reference Obligation Notional Amount would be less than zero, it shall be deemed to be zero.

For the avoidance of doubt, the Reference Obligation Notional Amount shall not be increased by any deferral or capitalization of interest that relates to the Term of this Transaction or decreased by payment of any portion of the principal balance of the Reference Obligation that is attributable to the deferral or capitalization of interest during the Term of this Transaction.

Initial Payment:	As shown in the relevant Confirmation.

2. Fixed Payments:

Fixed Rate Payer:	Buyer
Fixed Rate:	As shown in the relevant Confirmation, subject to adjustment in accordance with paragraph 6 below.
Fixed Rate Payer Period End Date:	The first day of each Reference Obligation Calculation Period.
Fixed Rate Payer Payment Dates:	In the relevant Confirmation, the parties shall specify either "Not CMBS Convention" or "CMBS Convention" as applicable. If "Not CMBS Convention" is specified in the relevant Confirmation, the Fixed Rate Payer Payment Dates shall be each day falling five Business Days after a Reference Obligation Payment Date; provided that the final Fixed Rate Payer Payment Date shall fall on the fifth Business Day following the Effective Maturity Date. If "CMBS Convention" is specified in the relevant Confirmation, the Fixed Rate Payer Payment Dates shall be, after each Reference Obligation Payment Date, the next following 25th calendar day of the month, except that when a Reference Obligation Payment Date falls on or after 25th calendar day of a month, the Fixed Rate Payer Payment Date in respect of such Reference Obligation Payment Date shall be 25th calendar day of the next following month; provided that the final Fixed Rate Payer Payment Date shall fall on the fifth Business Day following the Effective Maturity Date.
Fixed Amount:	In the relevant Confirmation, the parties shall specify "Fixed Amount definition for underlying with no

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payment delay" or "Fixed Amount definition for underlying with payment delay".

If "Fixed Amount definition for underlying with no payment delay" is specified in the relevant Confirmation, the Fixed Amount shall be, with respect to any Fixed Rate Payer Payment Date, an amount equal to the product of:

(a) the Fixed Rate;

(b) an amount determined by the Calculation Agent equal to:

(i) the sum of the Reference Obligation Notional Amount as at 5:00 p.m. in the Calculation Agent City on each day in the related Fixed Rate Payer Calculation Period; divided by

(ii) the actual number of days in the related Fixed Rate Payer Calculation Period; and

(c) the actual number of days in the related Fixed Rate Payer Calculation Period divided by 360.

If "Fixed Amount definition for underlying with payment delay" is specified in the relevant Confirmation, then the Fixed Amount shall be with respect to any Fixed Rate Payer Payment Date, an amount equal to the product of:

(a) the Fixed Rate;

(b) the Reference Obligation Notional Amount outstanding on the last day of the Reference Obligation Calculation Period related to such Fixed Rate Payer Payment Date, as adjusted for any increases or decreases of the Reference Obligation Notional Amount on the Reference Obligation Payment Date immediately preceding the related Reference Obligation Payment Date; and

(c) the actual number of days in the related Fixed Rate Payer Calculation Period divided by 360.

Additional Fixed Amount Payment Dates:

(a) Each Fixed Rate Payer Payment Date; and

(b) in relation to each Additional Fixed Payment Event occurring after the second Business Day prior to the last Fixed Rate Payer Payment Date, the fifth Business Day after Buyer has received notification from Seller or the

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Calculation Agent of the occurrence of such Additional Fixed Payment Event.

Additional Fixed Payments:	Following the occurrence of an Additional Fixed Payment Event in respect of the Reference Obligation, Buyer shall pay the relevant Additional Fixed Amount to Seller on the first Additional Fixed Amount Payment Date falling at least two Business Days (or in the case of an Additional Fixed Payment Event that occurs after the second Business Day prior to the last Fixed Rate Payer Payment Date, five Business Days) after the delivery of a notice by the Calculation Agent to the parties or by Seller to Buyer stating that the related Additional Fixed Amount is due and showing in reasonable detail how such Additional Fixed Amount was determined; provided that any such notice must be given on or prior to the fifth Business Day following the day that is one calendar year after the Effective Maturity Date.
Additional Fixed Payment Event:	The occurrence on or after the Effective Date and on or before the day that is one calendar year after the Effective Maturity Date of a Writedown Reimbursement, a Principal Shortfall Reimbursement or an Interest Shortfall Reimbursement.
Additional Fixed Amount:	With respect to each Additional Fixed Amount Payment Date, an amount equal to the sum of: (a) the Writedown Reimbursement Payment Amount (if any); (b) the Principal Shortfall Reimbursement Payment Amount (if any); and (c) the Interest Shortfall Reimbursement Payment Amount (if any). For the avoidance of doubt, each Writedown Reimbursement Payment Amount, Principal Shortfall Reimbursement Payment Amount or Interest Shortfall Reimbursement Payment Amount (as applicable) shall be calculated using the Applicable Percentage which takes into account the aggregate adjustment made to the Applicable Percentage in respect of all Delivery Dates that have occurred prior to the date of such calculation.

3. Floating Payments:

Floating Rate Payer:	Seller
Floating Rate Payer Payment	In relation to a Floating Amount Event, the first Fixed Rate Payer Payment Date falling at least two Business

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Dates:	Days (or in the case of a Floating Amount Event that occurs on the Legal Final Maturity Date or the Final Amortization Date, the fifth Business Day) after delivery of a notice by the Calculation Agent to the parties or a notice by Buyer to Seller that the related Floating Amount is due and showing in reasonable detail how such Floating Amount was determined; provided that any such notice must be given on or prior to the fifth Business Day following the Effective Maturity Date.
Floating Payments:	If a Floating Amount Event occurs, then on the relevant Floating Rate Payer Payment Date, Seller will pay the relevant Floating Amount to Buyer. For the avoidance of doubt, the Conditions to Settlement are not required to be satisfied in respect of a Floating Payment.
Floating Amount Event:	A Writedown, a Failure to Pay Principal or an Interest Shortfall.
Floating Amount:	With respect to each Floating Rate Payer Payment Date, an amount equal to the sum of: (a) the relevant Writedown Amount (if any); (b) the relevant Principal Shortfall Amount (if any); and (c) the relevant Interest Shortfall Payment Amount (if any). For the avoidance of doubt, each Writedown Amount, Principal Shortfall Amount or Interest Shortfall Payment Amount (as applicable) shall be calculated using the Applicable Percentage which takes into account the aggregate adjustment made to the Applicable Percentage in respect of all Delivery Dates that have occurred prior to the date of such calculation.

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4. Credit Events and Physical Settlement

Conditions to Settlement: Credit Event Notice

Notifying Party: Buyer

Notice of Physical Settlement

Notice of Publicly Available Information: Applicable

Public Sources: The public sources listed in Section 3.7 of the Credit Derivatives Definitions; provided that Servicer Reports in respect of the Reference Obligation and, in respect of a Distressed Ratings Downgrade Credit Event only, any public communications by any of the Rating Agencies in respect of the Reference Obligation shall also be deemed Public Sources.

Specified Number: 1

provided that if the Calculation Agent has previously delivered a notice to the parties or Buyer has previously delivered a notice to Seller pursuant to the definition of "Floating Rate Payer Payment Dates" above in respect of a Writedown or a Failure to Pay Principal, the only Condition to Settlement with respect to any Credit Event shall be a Notice of Physical Settlement.

The parties agree that with respect to the Transaction and notwithstanding anything to the contrary in the Credit Derivatives Definitions:

(a) the Conditions to Settlement may be satisfied on more than one occasion;

(b) multiple Physical Settlement Amounts may be payable by Seller;

(c) Buyer, when providing a Notice of Physical Settlement, must specify an Exercise Amount and an Exercise Percentage;

(d) if Buyer has delivered a Notice of Physical Settlement that specifies an Exercise Amount that is less than the Reference Obligation Notional Amount as of the date on which such Notice of Physical Settlement is delivered (calculated as though Physical Settlement in

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respect of all previously delivered Notices of Physical Settlement has occurred in full), the rights and obligations of the parties under the Transaction shall continue and Buyer may deliver additional Notices of Physical Settlement with respect to the initial Credit Event or with respect to any additional Credit Event at any time thereafter; and

(e) any Notice of Physical Settlement shall be delivered no later than 30 calendar days after the fifth Business Day following the earlier of the Effective Maturity Date and the Optional Step-up Early Termination Date.

Section 3.2(d) of the Credit Derivatives Definitions is amended to delete the words "that is effective no later than thirty calendar days after the Event Determination Date".

Section 3.3 of the Credit Derivatives Definitions is amended so that the following is added as sub-clause (d):

"(d) the expiration of any applicable grace period for a Failure to Pay Principal Credit Event".

Credit Events:	The following Credit Events shall apply to the Transaction (and the first sentence of Section 4.1 of the Credit Derivatives Definitions shall be amended accordingly): Failure to Pay Principal Writedown Additional Credit Event (as shown in the relevant Confirmation).
Obligation:	Reference Obligation Only

5. Interest Shortfall

Interest Shortfall Payment Amount:	In respect of an Interest Shortfall, the relevant Interest Shortfall Amount; provided that, if Interest Shortfall Cap is specified as applicable in the relevant Confirmation and the Interest Shortfall Amount exceeds the Interest Shortfall Cap Amount, the Interest Shortfall Payment Amount in respect of such Interest Shortfall shall be the Interest Shortfall Cap Amount.
Interest Shortfall Cap:	As shown in the relevant Confirmation.

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Interest Shortfall Cap Amount:	As set out in the Interest Shortfall Cap Annex.
Actual Interest Amount:	With respect to any Reference Obligation Payment Date, payment by or on behalf of the Issuer of an amount in respect of interest due under the Reference Obligation (including, without limitation, any deferred interest or default 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 that relates to the Term of the Transaction) to the holder(s) of the Reference Obligation in respect of the Reference Obligation.
WAC Cap Interest Provision:	As shown in the relevant Confirmation. For this purpose, "WAC Cap" means a weighted average coupon or weighted average rate cap provision (however defined in the Underlying Instruments) of the Underlying Instruments that limits, increases or decreases the interest rate or interest entitlement in circumstances where the Underlying Instruments as at the Trade Date and without regard to any subsequent amendments, do not provide for any interest shortfall arising as a result of such provision to be deferred, capitalized or otherwise compensated for at any future time.
Expected Interest Amount:	With respect to any Reference Obligation Payment Date, the amount of current interest that would accrue during the related Reference Obligation Calculation Period calculated using the Reference Obligation Coupon on a principal balance of the Reference Obligation equal to: (a) the Outstanding Principal Amount taking into account any reductions due to a principal deficiency balance or realized loss amount (however described in the Underlying Instruments) that are attributable to the Reference Obligation minus (b) the Aggregate Implied Writedown Amount (if any) and that will be payable on the related Reference Obligation Payment Date assuming for this purpose that sufficient funds are available therefor in accordance with the Underlying Instruments. Except as provided in (a) in the previous sentence, the Expected Interest Amount shall be determined without regard to (i) unpaid amounts in respect of accrued interest on prior Reference Obligation Payment Dates, or (ii) any prepayment penalties or yield maintenance provisions. The Expected Interest Amount shall be determined: (x) if WAC Cap Interest Provision is specified as applicable in the relevant Confirmation, after giving

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effect to any WAC Cap; and

(y) if WAC Cap Interest Provision is specified as not applicable in the relevant Confirmation, without giving effect to any WAC Cap; and

in either case without regard to the effect of any provisions (however described) of such Underlying Instruments that otherwise permit the limitation of due payments to distributions of funds available from proceeds of the Underlying Assets, or that provide for the capitalization or deferral of interest on the Reference Obligation during the Term of the Transaction, or that provide for the extinguishing or reduction of such payments or distributions (each a "Limitation Provision") (but, for the avoidance of doubt, taking account of any Writedown within paragraph (i) of the definition of "Writedown" occurring in accordance with the Underlying Instruments)[4].

For the purposes of calculating the Expected Interest Amount, and notwithstanding any other provision herein, the Reference Obligation Coupon shall be deemed to include any cap stated in the Underlying Instrument that is not a Limitation Provision and, where WAC Cap Interest Provision is specified as not applicable in the relevant Confirmation, is not a WAC Cap.

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

For the avoidance of doubt, the occurrence of an event within (a) or (b) shall be determined taking into account any payment made under the Reference Policy, if applicable.

Interest Shortfall Amount: With respect to any Reference Obligation Payment Date, an amount equal to the greater of:

(a) zero; and

(b) the amount equal to the product of:

(i) (A) the Expected Interest Amount;

minus

(B) the Actual Interest Amount; and

(ii) the Applicable Percentage;

provided that, with respect to the first Reference Obligation Payment Date only, the Interest Shortfall Amount shall be

[4] Note that this will not impact the determination of "Expected Interest Amount" in respect of a Reference Obligation that does not have a Limitation Provision.

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	the amount determined in accordance with (a) and (b) above multiplied by a fraction equal to: (x) the number of days in the first Fixed Rate Payer Calculation Period; over (y) the number of days in the first Reference Obligation Calculation Period.
Interest Shortfall Reimbursement:	With respect to any Reference Obligation Payment Date, the payment by or on behalf of the Issuer of an Actual Interest Amount in respect of the Reference Obligation that is greater than the Expected Interest Amount.
Interest Shortfall Reimbursement Amount:	With respect to any Reference Obligation Payment Date, the product of (a) the amount of any Interest Shortfall Reimbursement on such day and (b) the Applicable Percentage.
Interest Shortfall Reimbursement Payment Amount:	If Interest Shortfall Cap is specified as not applicable in the relevant Confirmation, the relevant Interest Shortfall Reimbursement Amount. If Interest Shortfall Cap is specified as applicable in the relevant Confirmation, the amount determined pursuant to the Interest Shortfall Cap Annex.

6. Consequences of Step-up of the Reference Obligation Coupon

Step-up provisions:	As shown in the relevant Confirmation. If the Step-up provisions are applicable, then the following provisions of this paragraph 6 shall apply.
Step-up:	On any day, an increase in the Reference Obligation Coupon due to the failure of the Issuer or a third party to exercise, in accordance with the Underlying Instruments, a "clean-up call" or other right to purchase, redeem, cancel or terminate (however described in the Underlying Instruments) the Reference Obligation.
Non-Call Notification Date:	The date of delivery by the Calculation Agent to the parties or by Buyer to Seller of a Non-Call Notice.
Non-Call Notice:	A notice given by the Calculation Agent to the parties or by Buyer to Seller that the Reference Obligation has not been purchased, redeemed, cancelled or terminated by the Issuer or a third party, in accordance with the Underlying Instruments, pursuant to a "clean-up call" or other right to purchase, redeem, cancel or terminate (however described in the Underlying Instruments) the Reference Obligation, which failure will result in the occurrence of a Step-up.
Increase of the Fixed Rate:	Subject to "Optional Step-up Early Termination" below, upon the occurrence of a Step-up, the Fixed Rate will be

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increased by the number of basis points by which the Reference Obligation Coupon is increased due to the Step-up, such increase to take effect as of the Fixed Rate Payer Payment Date immediately following the fifth Business Day after the Non-Call Notification Date.

Optional Step-up Early Termination: No later than five Business Days after the Non-Call Notification Date, Buyer shall notify Seller (such notification, a "Buyer Step-up Notice") whether Buyer wishes to continue the Transaction at the increased Fixed Rate or to terminate the Transaction.

If Buyer elects to terminate the Transaction, the date of delivery of the Buyer Step-up Notice shall be the Scheduled Termination Date (such date, the "Optional Step-up Early Termination Date") and in such case "Increase of the Fixed Rate" in this paragraph 6 shall not apply.

No amount shall be payable by either party in respect of the Optional Step-up Early Termination Date other than any Fixed Amount, Additional Fixed Amount, Floating Amount or Physical Settlement Amount calculated in accordance with the terms hereof. For the avoidance of doubt, the obligation of a party to pay any amount that has become due and payable under the Transaction and remains unpaid as at the Optional Step-up Early Termination Date shall not be affected by the occurrence of the Optional Step-up Early Termination Date.

If Buyer fails to deliver the Buyer Step-up Notice by the fifth Business Day after the Non-Call Notification Date, Buyer shall be deemed to have elected to continue the Transaction at the increased Fixed Rate as described under "Increase of the Fixed Rate".

If Buyer elects, or is deemed to have elected, to continue the Transaction at the increased Fixed Rate, the Transaction shall continue.

7. Settlement Terms

Settlement Method:	Physical Settlement
Terms Relating to Physical Settlement:	
Physical Settlement Period:	Five Business Days
Deliverable Obligations:	Exclude Accrued Interest
Deliverable Obligations:	Deliverable Obligation Category: Reference Obligation Only
Physical Settlement Amount:	An amount equal to:

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

(b) the sum of:

(i) if the Aggregate Implied Writedown Amount is greater than zero, the product of (A) the Aggregate Implied Writedown Amount, (B) the Applicable Percentage, each as determined immediately prior to the relevant Delivery and (C) the relevant Exercise Percentage; and

(ii) the product of (A) the aggregate of all Writedown Amounts in respect of Writedowns within paragraph (i)(B) of the definition of "Writedown" minus the aggregate of all Writedown Reimbursement Amounts in respect of Writedown Reimbursements within paragraph (ii)(B) of the definition of "Writedown Reimbursement" and (B) the relevant Exercise Percentage;

provided that if the Physical Settlement Amount would exceed the product of:

(1) the Reference Obligation Notional Amount as of the date on which the relevant Notice of Physical Settlement is delivered calculated as though Physical Settlement in respect of all previously delivered Notices of Physical Settlement has occurred in full; and

(2) the Exercise Percentage;

then the Physical Settlement Amount shall be deemed to be equal to such product.

Delayed Payment: With respect to a Delivery Date, if a Servicer Report that describes a Delayed Payment is delivered to holders of the Reference Obligation or to the Calculation Agent on or after such Delivery Date, Buyer will pay the applicable Delayed Payment Amount to Seller no later than five Business Days following the later of (a) the day on which such Servicer Report is delivered and (b) the day on which such Delayed Payment is due and payable.

Escrow: Applicable

Non-delivery by Buyer or occurrence of the Effective Maturity Date: If Buyer has delivered a Notice of Physical Settlement and:

(a) Buyer does not Deliver in full the Deliverable Obligations specified in that Notice of Physical Settlement on or prior to the Physical Settlement

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Date; or

(b) the Effective Maturity Date occurs after delivery of the Notice of Physical Settlement but before Buyer Delivers the Deliverable Obligations specified in that Notice of Physical Settlement;

then such Notice of Physical Settlement shall be deemed not to have been delivered and any reference in these CDS on MBS Terms to a previously delivered Notice of Physical Settlement shall exclude any Notice of Physical Settlement that is deemed not to have been delivered. Sections 9.2(c)(ii) (except for the first sentence thereof), 9.3, 9.4, 9.5, 9.6, 9.9 and 9.10 of the Credit Derivatives Definitions shall not apply.

8. Additional Provisions:

(a) *Delivery of Servicer Report*

If either party makes a request in writing, the Calculation Agent agrees to provide such party with a copy of the most recent Servicer Report promptly following receipt of such request, if and to the extent such Servicer Report is reasonably available to the Calculation Agent (whether or not the Calculation Agent is a holder of the Reference Obligation). In addition, if a Floating Payment or an Additional Fixed Payment is due hereunder, then the Calculation Agent or the party that notifies the other party that the relevant Floating Payment or Additional Fixed Payment is due, as applicable, (the "Notifying Party") shall deliver a copy of any Servicer Report relevant to such payment that is requested by the party that is not the Notifying Party or by either party where the Notifying Party is the Calculation Agent, if and to the extent that such Servicer Report is reasonably available to the Notifying Party (whether or not the Notifying Party is a holder of the Reference Obligation).

(b) *Calculation Agent and Buyer and Seller Determinations*

The Calculation Agent shall be responsible for determining and calculating (i) the Fixed Amount payable on each Fixed Rate Payer Payment Date; (ii) the occurrence of a Floating Amount Event and the related Floating Amount and (iii) the occurrence of an Additional Fixed Payment Event and the related Additional Fixed Amount; provided that notwithstanding the above, each of Buyer and Seller shall be entitled to determine and calculate the above amounts to the extent that Buyer or Seller, as applicable, has the right to deliver a notice to the other party demanding payment of such amount. The Calculation Agent or Buyer or Seller, as applicable, shall make such determinations and calculations based solely on the basis of the Servicer Reports, to the extent such Servicer Reports are reasonably available to the Calculation Agent or such party. The Calculation Agent or Buyer or Seller, as applicable, shall, as soon as practicable after making any of the determinations or calculations specified in (i) and (ii) above, notify the parties or the other party, as applicable, of such determinations and calculations. For the avoidance of doubt, if an Interest Shortfall Amount is not explicitly set out in the Servicer Report but the Calculation Agent determines that an Interest Shortfall has occurred on the basis of information in such Servicer Report,

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then the relevant Interest Shortfall Amount shall be calculated by the Calculation Agent on the basis of such information.[5]

(c) *Adjustment of Calculation Agent Determinations*

To the extent that a Servicer furnishes any Servicer Reports correcting information contained in previously issued Servicer Reports, and such corrections impact calculations pursuant to the Transaction, the calculations relevant to the Transaction shall be adjusted retroactively by the Calculation Agent to reflect the corrected information (provided that, for the avoidance of doubt, no amounts in respect of interest shall be payable by either party and provided that the Calculation Agent in performing the calculations pursuant to this paragraph will assume that no interest has accrued on any adjusted amount), and the Calculation Agent shall promptly notify both parties of any corrected payments required by either party. Any required corrected payments shall be made within five Business Days of the day on which such notification by the Calculation Agent is effective.

9. Additional Definitions and Amendments to the Credit Derivatives Definitions

(a) References in Sections 4.1, 8.2, 9.1 and 9.2(a) of the Credit Derivatives Definitions as well as Section 3(a)(iv) of the form of Novation Agreement set forth in Exhibit E to the Credit Derivatives Definitions to the Reference Entity shall be deemed to be references to both the Reference Entity and the Insurer in respect of the Reference Policy, if applicable.

(b) (i) The definition of "Publicly Available Information" in Section 3.5 of the Credit Derivatives Definitions shall be amended by (i) inserting the words "the Insurer in respect of the Reference Policy, if applicable" at the end of subparagraph (a)(ii)(A) thereof, (ii) inserting the words ", servicer, sub-servicer, master servicer" before the words "or paying agent" in subparagraph (a)(ii)(B) thereof and (iii) deleting the word "or" at the end of subparagraph (a)(iii) thereof and inserting at the end of subparagraph (a)(iv) thereof the following: "or (v) is information contained in a notice or on a website published by an internationally recognized rating agency that has at any time rated the Reference Obligation".

(ii) The definition of "Physical Settlement" in Section 8.1 of the Credit Derivatives Definitions shall be amended by (i) deleting the words "Physical Settlement Amount" from the last line of the second paragraph thereof and (ii) inserting in lieu thereof the words "Exercise Amount".

(iii) The definition of "Physical Settlement Date" in Section 8.4 of the Credit Derivatives Definitions shall be amended by deleting the last sentence thereof.

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[5] This is intended to cover any situation in which the Servicer Report does not report on Interest Shortfalls.

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(c) For the purposes of the Transaction only, the following terms have the meanings given below:

"Actual Principal Amount" means, with respect to the Final Amortization Date or the Legal Final Maturity Date, an amount paid on such day by or on behalf of the Issuer in respect of principal (excluding any amount representing capitalized interest that relates to the Term of the Transaction) to the holder(s) of the Reference Obligation in respect of the Reference Obligation.

"Aggregate Implied Writedown Amount" means the greater of (i) zero and (ii) the aggregate of all Implied Writedown Amounts minus the aggregate of all Implied Writedown Reimbursement Amounts.

"Current Factor" means the factor of the Reference Obligation as specified in the most recent Servicer Report; provided that if the factor is not specified in the most recent Servicer Report or the factor specified includes deferred or capitalized interest that relates to the Term of the Transaction, then the Current Factor shall be the ratio equal to (i) the Outstanding Principal Amount as of such date, determined in accordance with the most recent Servicer Report over (ii) the Original Principal Amount.

"Current Period Implied Writedown Amount" means, in respect of a Reference Obligation Calculation Period, an amount determined as of the last day of such Reference Obligation Calculation Period equal to the greater of:

(i) zero; and

(ii) the product of:

(A) the Implied Writedown Percentage; and

(B) the greater of:

(1) zero; and

(2) the lesser of (x) the Pari Passu Amount and (y) the Pari Passu Amount plus the Senior Amount minus the aggregate outstanding asset pool balance securing the payment obligations on the Reference Obligation (all such outstanding asset pool balances as obtained by the Calculation Agent from the most recently dated Servicer Report available as of such day), calculated based on the face amount of the assets then in such pool, whether or not any such asset is performing.

"Delayed Payment" means, with respect to a Delivery Date, a Principal Payment, Principal Shortfall Reimbursement or a Writedown Reimbursement within paragraph (i) of the definition of "Writedown Reimbursement" that is described in a Servicer Report delivered to holders of the Reference Obligation or to the Calculation Agent on or after such Delivery Date.

"Delayed Payment Amount" means, if persons who are holders of the Reference Obligation as of a date prior to a Delivery Date are paid a Delayed Payment on or after such Delivery Date, an amount equal to the product of (i) the sum of all such Delayed Payments, (ii) the Reference Price, (iii) the Applicable Percentage immediately prior to such Delivery Date and (iv) the Exercise Percentage.

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"Distressed Ratings Downgrade" means that the Reference Obligation:

(i) if publicly rated by Moody's, (A) is downgraded to "Caa2" or below by Moody's or (B) has the rating assigned to it by Moody's withdrawn and, in either case, not reinstated within five Business Days of such downgrade or withdrawal; provided that if such Reference Obligation was assigned a public rating of "Baa3" or higher by Moody's immediately prior to the occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "Caa1" by Moody's within three calendar months 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 shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "CCC+" by Standard & Poor's within three calendar months 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 shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "CCC+" by Fitch within three calendar months after such withdrawal.

"Effective Maturity Date" means the earlier of (a) the Scheduled Termination Date and (b) the Final Amortization Date.

"Exercise Amount" means, for purposes of the Transaction, an amount to which a Notice of Physical Settlement relates equal to the product of (i) the original face amount of the Reference Obligation to be Delivered by Buyer to Seller on the applicable Physical Settlement Date; and (ii) the Current Factor as of such date. The Exercise Amount to which a Notice of Physical Settlement relates shall (A) be equal to or less than the Reference Obligation Notional Amount (determined, for this purpose, without regard to the effect of any Writedown or Writedown Reimbursement within paragraphs (i)(B) or (iii) of "Writedown" or paragraphs (ii)(B) or (iii) of "Writedown Reimbursement", respectively) as of the date on which the relevant Notice of Physical Settlement is delivered calculated as though the Physical Settlement of all previously delivered Notices of Physical Settlement has occurred in full and (B) not be less than the lesser of (1) the Reference Obligation Notional Amount as of the date on which the relevant Notice of Physical Settlement is delivered calculated as though Physical Settlement in respect of all previously delivered Notices of Physical Settlement has occurred in full and (2) USD100,000. The cumulative original face amount of Deliverable Obligations specified in all Notices of Physical Settlement shall not at any time exceed the Initial Face Amount. For the avoidance of doubt: (a) if any capitalization or deferral of interest in respect of the Reference Obligation has occurred during the Term of the Transaction and has not been recovered by holders of the Reference Obligation pursuant to the terms of the Underlying Instruments, then, for the purpose of determining the amount of Deliverable Obligations to be Delivered, the Exercise Amount (determined above by reference to the original face amount) will represent an outstanding principal balance of the Reference Obligation to be Delivered by Buyer that includes the proportion of unrecovered interest attributable to the Reference Obligation to be Delivered and (b) notwithstanding the

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foregoing, the Physical Settlement Amount payable by Seller in relation to such Exercise Amount shall not include any amount in respect of such unrecovered interest.

"Exercise Percentage" means, with respect to a Notice of Physical Settlement, a percentage equal to the original face amount of the Deliverable Obligations specified in such Notice of Physical Settlement divided by an amount equal to (i) the Initial Face Amount minus (ii) the aggregate of the original face amount of all Deliverable Obligations specified in all previously delivered Notices of Physical Settlement.

"Expected Principal Amount" means, with respect to the Final Amortization Date or the Legal Final Maturity Date, an amount equal to (i) the Outstanding Principal Amount of the Reference Obligation payable on such day (excluding any amount representing capitalized interest that relates to the Term of the Transaction) assuming for this purpose that sufficient funds are available for such payment, where such amount shall be determined in accordance with the Underlying Instruments, minus (ii) the sum of (A) the Aggregate Implied Writedown Amount (if any) and (B) the net aggregate principal deficiency balance or realized loss amounts (however described in the Underlying Instruments) that are attributable to the Reference Obligation. The Expected Principal Amount shall be determined without regard to the effect of any provisions (however described) of the Underlying Instruments that permit the limitation of due payments or distributions of funds in accordance with the terms of such Reference Obligation or that provide for the extinguishing or reduction of such payments or distributions.

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

"Final Amortization Date" means the first to occur of (i) the date on which the Reference Obligation Notional Amount is reduced to zero and (ii) the date on which the assets securing the Reference Obligation or designated to fund amounts due in respect of the Reference Obligation are liquidated, distributed or otherwise disposed of in full and the proceeds thereof are distributed or otherwise disposed of in full.

"Fitch" means Fitch Ratings or any successor to its rating business.

"Implied Writedown Amount" means, (i) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) of the definition of "Writedown" to occur in respect of the Reference Obligation, on any Reference Obligation Payment Date, an amount determined by the Calculation Agent equal to the excess, if any, of the Current Period Implied Writedown Amount over the Previous Period Implied Writedown Amount, in each case in respect of the Reference Obligation Calculation Period to which such Reference Obligation Payment Date relates, and (ii) in any other case, zero.

"Implied Writedown Percentage" means (i) the Outstanding Principal Amount divided by (ii) the Pari Passu Amount.

"Implied Writedown Reimbursement Amount" means, (i) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as

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described in (i) of the definition of "Writedown" to occur in respect of the Reference Obligation, on any Reference Obligation Payment Date, an amount determined by the Calculation Agent equal to the excess, if any, of the Previous Period Implied Writedown Amount over the Current Period Implied Writedown Amount, in each case in respect of the Reference Obligation Calculation Period to which such Reference Obligation Payment Date relates, and (ii) in any other case, zero, provided that the aggregate of all Implied Writedown Reimbursement Amounts at any time shall not exceed the Outstanding Principal Amount.

"Legal Final Maturity Date" means the date set out in paragraph 1 above (subject, for the avoidance of doubt, to any business day convention applicable to the legal final maturity date of the Reference Obligation), provided that if the legal final maturity date of the Reference Obligation is amended, the Legal Final Maturity Date shall be such date as amended.

"Moody's" means Moody's Investors Service, Inc. or any successor to its rating business.

"Outstanding Principal Amount" means, as of any date of determination with respect to the Reference Obligation, the outstanding principal balance of the Reference Obligation as of such date, which shall take into account:

(i) all payments of principal;

(ii) all writedowns or applied losses (however described in the Underlying Instruments) resulting in a reduction in the outstanding principal balance of the Reference Obligation (other than as a result of a scheduled or unscheduled payment of principal);

(iii) forgiveness of any amount by the holders of the Reference Obligation pursuant to an amendment to the Underlying Instruments resulting in a reduction in the outstanding principal balance of the Reference Obligation;

(iv) any payments reducing the amount of any reductions described in (ii) and (iii) of this definition; and

(v) any increase in the outstanding principal balance of the Reference Obligation that reflects a reversal of any prior reductions described in (ii) and (iii) of this definition; and

(vi) any increase in the outstanding principal balance of the Reference Obligation that is attributable to the deferral or capitalization of interest prior to the Effective Date.

For the avoidance of doubt, the Outstanding Principal Amount shall not include any portion of the outstanding principal balance of the Reference Obligation that is attributable to the deferral or capitalization of interest during the Term of this Transaction.

"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.

"Previous Period Implied Writedown Amount" means, in respect of a Reference Obligation Calculation Period, the Current Period Implied Writedown Amount as determined in relation to the last day of the immediately preceding Reference Obligation Calculation Period.

"Principal Payment" means, with respect to any Reference Obligation Payment Date, the occurrence of a payment of an amount to the holders of the Reference Obligation in respect of

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principal (scheduled or unscheduled) in respect of the Reference Obligation other than a payment in respect of principal representing capitalized interest that relates to the Term of the Transaction, excluding, for the avoidance of doubt, any Writedown Reimbursement or Interest Shortfall Reimbursement.

"Principal Payment Amount" means, with respect to any Reference Obligation Payment Date, an amount equal to the product of (i) the amount of any Principal Payment on such date and (ii) the Applicable Percentage.

"Principal Shortfall Amount" means, in respect of a Failure to Pay Principal, an amount equal to the greater of:

(i) zero; and

(ii) the amount equal to the product of:

(A) the Expected Principal Amount minus the Actual Principal Amount;

(B) the Applicable Percentage; and

(C) the Reference Price.

If the Principal Shortfall Amount would be greater than the Reference Obligation Notional Amount immediately prior to the occurrence of such Failure to Pay Principal, then the Principal Shortfall Amount shall be deemed to be equal to the Reference Obligation Notional Amount at such time.

"Principal Shortfall Reimbursement" means, with respect to any day, the payment by or on behalf of the Issuer of an amount in respect of the Reference Obligation in or toward the satisfaction of any deferral of or failure to pay principal arising from one or more prior occurrences of a Failure to Pay Principal.

"Principal Shortfall Reimbursement Amount" means, with respect to any day, the product of (i) the amount of any Principal Shortfall Reimbursement on such day, (ii) the Applicable Percentage and (iii) the Reference Price.

"Principal Shortfall Reimbursement Payment Amount" means, with respect to an Additional Fixed Amount Payment Date, the sum of the Principal Shortfall Reimbursement Amounts in respect of all Principal Shortfall Reimbursements (if any) made during the Reference Obligation Calculation Period relating to such Additional Fixed Amount Payment Date, provided that the aggregate of all Principal Shortfall Reimbursement Payment Amounts at any time shall not exceed the aggregate of all Floating Amounts paid by Seller in respect of occurrences of Failure to Pay Principal prior to such Additional Fixed Amount Payment Date.

"Rating Agencies" means Fitch, Moody's and Standard & Poor's.

"Reference Obligation Calculation Period" means, with respect to each Reference Obligation Payment Date, a period corresponding to the interest accrual period relating to such Reference Obligation Payment Date pursuant to the Underlying Instruments.

"Reference Obligation Coupon" means the periodic interest rate applied in relation to each Reference Obligation Calculation Period on the related Reference Obligation Payment Date, as determined in accordance with the terms of the Underlying Instruments as at the Effective Date, without regard to any subsequent amendment.

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"Reference Obligation Payment Date" means (i) each scheduled distribution date for the Reference Obligation occurring on or after the Effective Date and on or prior to the Scheduled Termination Date, determined in accordance with the Underlying Instruments and (ii) any day after the Effective Maturity Date on which a payment is made in respect of the Reference Obligation.

"Relevant Amount" means, if a Servicer Report that describes a Principal Payment, Writedown or Writedown Reimbursement (other than a Writedown Reimbursement within paragraph (i) of "Writedown Reimbursement"), in each case that has the effect of decreasing or increasing the interest-accruing principal balance of the Reference Obligation as of a date prior to a Delivery Date but such Servicer Report is delivered to holders of the Reference Obligation or to the Calculation Agent on or after such Delivery Date, an amount equal to the product of (i) the sum of any such Principal Payment (expressed as a positive amount), Writedown (expressed as a positive amount) or Writedown Reimbursement (expressed as a negative amount), as applicable; (ii) the Reference Price; (iii) the Applicable Percentage immediately prior to such Delivery Date; and (iv) the Exercise Percentage.

"Senior Amount" means, as of any day, the aggregate outstanding principal balance of all obligations of the Reference Entity secured by the Underlying Assets and ranking senior in priority to the Reference Obligation.

"Servicer" means any trustee, servicer, sub-servicer, master servicer, fiscal agent, paying agent or other similar entity responsible for calculating payment amounts or providing reports pursuant to the Underlying Instruments.

"Servicer Reports" means periodic statements or reports regarding the Reference Obligation provided by the Servicer to holders of the Reference Obligation.

"Standard & Poor's" means Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. or any successor to its rating business.

"Underlying Assets" means the assets securing the Reference Obligation for the benefit of the holders of the Reference Obligation and which are expected to generate the cashflows required for the servicing and repayment (in whole or in part) of the Reference Obligation, or the assets to which a holder of such Reference Obligation is economically exposed where such exposure is created synthetically.

"Underlying Instruments" means the indenture, trust agreement, pooling and servicing agreement or other relevant agreement(s) setting forth the terms of the Reference Obligation.

"Writedown" means the occurrence at any time on or after the Effective Date of:

(i) (A) a writedown or applied loss (however described in the Underlying Instruments) resulting in a reduction in the Outstanding Principal Amount (other than as a result of a scheduled or unscheduled payment of principal); or

(B) the attribution of a principal deficiency or realized loss (however described in the Underlying Instruments) to the Reference Obligation resulting in a reduction 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; or

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(iii) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) above to occur in respect of the Reference Obligation, an Implied Writedown Amount being determined in respect of the Reference Obligation by the Calculation Agent.

"Writedown Amount" means, with respect to any day, the product of (i) the amount of any Writedown on such day, (ii) the Applicable Percentage and (iii) the Reference Price.

"Writedown Reimbursement" means, with respect to any day, the occurrence of:

(i) a payment by or on behalf of the Issuer of an amount in respect of the Reference Obligation in reduction of any prior Writedowns;

(ii) (A) an increase by or on behalf of the Issuer of the Outstanding Principal Amount of the Reference Obligation to reflect the reversal of any prior Writedowns; or

(B) a decrease in the principal deficiency balance or realized loss amounts (however described in the Underlying Instruments) attributable to the Reference Obligation; or

(iii) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (ii) above to occur in respect of the Reference Obligation, an Implied Writedown Reimbursement Amount being determined in respect of the Reference Obligation by the Calculation Agent.

"Writedown Reimbursement Amount" means, with respect to any day, an amount equal to the product of:

(i) the sum of all Writedown Reimbursements on that day;

(ii) the Applicable Percentage; and

(iii) the Reference Price.

"Writedown Reimbursement Payment Amount" means, with respect to an Additional Fixed Amount Payment Date, the sum of the Writedown Reimbursement Amounts in respect of all Writedown Reimbursements (if any) made during the Reference Obligation Calculation Period relating to such Additional Fixed Amount Payment Date, provided that the aggregate of all Writedown Reimbursement Payment Amounts at any time shall not exceed the aggregate of all Floating Amounts paid by Seller in respect of Writedowns occurring prior to such Additional Fixed Amount Payment Date.

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Interest Shortfall Cap Annex

If Interest Shortfall Cap is specified as applicable in the relevant Confirmation, then the following provisions will apply:

Interest Shortfall Cap Basis:	As shown in the relevant Confirmation.
Interest Shortfall Cap Amount:	If the Interest Shortfall Cap Basis is Fixed Cap, the Interest Shortfall Cap Amount in respect of an Interest Shortfall shall be the Fixed Amount calculated in respect of the Fixed Rate Payer Payment Date immediately following the Reference Obligation Payment Date on which the relevant Interest Shortfall occurred. If the Interest Shortfall Cap Basis is Variable Cap, the Interest Shortfall Cap Amount applicable in respect of a Floating Rate Payer Payment Date shall be an amount equal to the product of: (a) the sum of the Relevant Rate and the Fixed Rate applicable to the Fixed Rate Payer Calculation Period immediately preceding the Reference Obligation Payment Date on which the relevant Interest Shortfall occurs; (b) the amount determined by the Calculation Agent under sub-clause (b) of the definition of "Fixed Amount" in relation to the relevant Fixed Rate Payer Payment Date; and (c) the actual number of days in such Fixed Rate Payer Calculation Period divided by 360.
Interest Shortfall Compounding:	As shown in the relevant Confirmation.
Interest Shortfall Reimbursement Payment Amount:	If Interest Shortfall Cap is specified as applicable in the relevant Confirmation, then with respect to the first Additional Fixed Amount Payment Date, zero, and with respect to any subsequent Additional Fixed Amount Payment Date and calculated as of the Reference Obligation Payment Date immediately preceding such Additional Fixed Amount Payment Date, as specified by the Calculation Agent in its notice to the parties or by Seller in its notice to Buyer of the existence of an Interest Shortfall Reimbursement, an amount equal to the greater of: (a) zero; and (b) the amount equal to: (i) the product of: (A) the Cumulative Interest Shortfall Payment Amount as of the.

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Additional Fixed Amount Payment Date immediately preceding such Reference Obligation Payment Date; and

(B) either:

(1) if Interest Shortfall Compounding is specified as applicable in the relevant Confirmation, the relevant Cumulative Interest Shortfall Payment Compounding Factor for the Fixed Rate Payer Calculation Period immediately preceding such Additional Fixed Amount Payment Date (or 1.0 in respect of any Additional Fixed Amount Payment Date occurring after the final Fixed Rate Payer Payment Date); or

(2) if Interest Shortfall Compounding is specified as not applicable in the relevant Confirmation, 1;

minus

(ii) the Cumulative Interest Shortfall Amount as of such Reference Obligation Payment Date;

provided that if the Interest Shortfall Reimbursement Payment Amount on an Additional Fixed Amount Payment Date would exceed the Interest Shortfall Reimbursement Amount in respect of the related Reference Obligation Payment Date, then such Interest Shortfall Reimbursement Payment Amount shall be deemed to be equal to such Interest Shortfall Reimbursement Amount.

Cumulative Interest Shortfall Amount: With respect to any Reference Obligation Payment Date, an amount equal to the greater of:

(a) zero; and

(b) an amount equal to:

(i) the Cumulative Interest Shortfall Amount as of the Reference Obligation Payment Date immediately preceding such Reference Obligation Payment Date or, in the case of

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the first Reference Obligation Payment Date, zero; plus

(ii) the Interest Shortfall Amount (if any) in respect of such Reference Obligation Payment Date; plus

(iii) either:

(A) if Interest Shortfall Compounding is specified as applicable in the relevant Confirmation, an amount determined by the Calculation Agent as the amount of interest that would accrue on the Cumulative Interest Shortfall Amount immediately preceding such Reference Obligation Payment Date during the related Reference Obligation Calculation Period pursuant to the Underlying Instruments or, in the case of the first Reference Obligation Payment Date, zero; or

(B) if Interest Shortfall Compounding is specified as not applicable in the relevant Confirmation, 0; minus

(iv) the Interest Shortfall Reimbursement Amount (if any) in respect of such Reference Obligation Payment Date.

Upon the occurrence of each Delivery, the Cumulative Interest Shortfall Amount shall be multiplied by a fraction equal to (a) the Applicable Percentage immediately following such Delivery divided by (b) the Applicable Percentage immediately prior to such Delivery; provided, however, that if more than one Delivery is made during a Reference Obligation Calculation Period, the Cumulative Interest Shortfall Amount calculated as of the Reference Obligation Payment Date occurring immediately after such Reference Obligation Calculation Period shall be multiplied by a fraction equal to (a) the Applicable Percentage immediately following the final Delivery made during such Reference Obligation Calculation Period over (b) the Applicable Percentage immediately prior to the first Delivery made during such Reference Obligation Calculation Period.

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Cumulative Interest Shortfall Payment Amount:

The Cumulative Interest Shortfall Payment Amount with respect to any Fixed Rate Payer Payment Date and any Additional Fixed Amount Payment Date falling on such Fixed Rate Payer Payment Date shall be an amount equal to the greater of:

(a) zero; and

(b) the amount equal to:

(i) the sum of:

(A) the Interest Shortfall Payment Amount for the Reference Obligation Payment Date corresponding to such Fixed Rate Payer Payment Date; and

(B) the product of:

(1) the Cumulative Interest Shortfall Payment Amount as of the Fixed Rate Payer Payment Date immediately preceding such Fixed Rate Payer Payment Date (or zero in the case of the first Fixed Rate Payer Payment Date); and

(2) either:

(AA) if Interest Shortfall Compounding is specified as applicable in the relevant Confirmation, the relevant Cumulative Interest Shortfall Payment Compounding Factor; or

(BB) if Interest Shortfall Compounding is specified as not applicable in the relevant Confirmation, 1;

minus

(ii) any Interest Shortfall Reimbursement Payment Amount paid on such Fixed Rate Payer Payment Date.

With respect to any Additional Fixed Amount Payment Date falling after the final Fixed Rate Payer Payment Date, the Cumulative Interest Shortfall Payment Amount shall be

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equal to:

(x) the Cumulative Interest Shortfall Payment Amount as of the Additional Fixed Amount Payment Date immediately preceding such Additional Fixed Amount Payment Date (or as of the final Fixed Rate Payer Payment Date in the case of the first Additional Fixed Amount Payment Date occurring after the final Fixed Rate Payer Payment Date); minus

(y) any Interest Shortfall Reimbursement Payment Amount paid on such Additional Fixed Amount Payment Date.

Upon the occurrence of each Delivery, the Cumulative Interest Shortfall Payment Amount shall be multiplied by a fraction equal to (a) the Applicable Percentage immediately following such Delivery divided by (b) the Applicable Percentage immediately prior to such Delivery; provided, however, that if more than one Delivery is made during a Reference Obligation Calculation Period, the Cumulative Interest Shortfall Payment Amount calculated as of the Reference Obligation Payment Date occurring immediately after such Reference Obligation Calculation Period shall be multiplied by a fraction equal to (a) the Applicable Percentage immediately following the final Delivery made during such Reference Obligation Calculation Period and (b) the Applicable Percentage immediately prior to the first Delivery made during such Reference Obligation Calculation Period.

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Cumulative Interest Shortfall Payment Compounding Factor: With respect to any Fixed Rate Payer Calculation Period, an amount equal to the sum of:

(a) 1.0;

plus

(b) the product of:

(i) the sum of (A) the Relevant Rate plus (B) the Fixed Rate; and

(ii) the actual number of days in such Fixed Rate Payer Calculation Period divided by 360;

provided, however, that the Cumulative Interest Shortfall Payment Compounding Factor shall be deemed to be 1.0 during the period from but excluding the Effective Maturity Date to and including the Termination Date.

Relevant Rate: With respect to a Fixed Rate Payer Calculation Period, the Floating Rate, expressed as a decimal number with seven decimal places, that would be determined if:

(a) the 2000 ISDA Definitions (and not the 2003 ISDA Credit Derivatives Definitions) applied to this paragraph;

(b) the Fixed Rate Payer Calculation Period were a "Calculation Period" for purposes of such determination; and

(c) the following terms applied:

(i) the Floating Rate Option were the Rate Source;

(ii) the Designated Maturity were the period that corresponds to the usual length of a Fixed Rate Payer Calculation Period; and

(iii) the Reset Date were the first day of the Calculation Period;

provided, however, that the Relevant Rate shall be deemed to be zero during the period from but excluding the Effective Maturity Date to and including the Termination Date.

Rate Source: As shown in the relevant Confirmation.

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Schedule

Form of Novation Confirmation

[Headed paper of Party A]

NOVATION CONFIRMATION

for use with the ISDA Standard Terms Supplement for use with Credit Derivative Transaction on Mortgage-Backed Security with Pay-As-You-Go or Physical Settlement as published by the International Swaps and Derivatives Association, Inc.

Date:

To: [Name and Address or Facsimile Number of Party B and Party C]

From: [Party A]

Re: Novation Transaction

Dear _____:

The purpose of this [facsimile][letter] is to confirm the terms and conditions of the Novation Transaction entered into between the parties and effective from the Novation Date specified below. This Novation Confirmation constitutes a "Confirmation" as referred to in the New Agreement specified below.

1. The definitions and provisions contained in the 2004 ISDA Novation Definitions (the "Definitions"), the terms and provisions of the 2003 ISDA Credit Derivatives Definitions (the "Credit Derivatives Definitions"), as published by the International Swaps and Derivatives Association, Inc. and amended from time to time and the Annex hereto are each incorporated in this Novation Confirmation. In the event of any inconsistency between (i) the Definitions (as amended by the Annex hereto), (ii) the Credit Derivatives Definitions and/or (iii) the Novation Agreement (as amended by the Annex hereto), this Novation Confirmation will govern.

2. The terms of the Novation Transaction to which this Novation Confirmation relates are as follows:

[Novation Trade Date:]
Novation Date:
Novated Percentage:
[Transferor][Transferor 1 (and notwithstanding Section 1.5 of the Definitions)]:
[Transferor 2 (and notwithstanding Section 1.5 of the Definitions)]:
[Transferee][Transferee 1]:

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[Remaining Party (and notwithstanding Section 1.6 of the Definitions)][Transferee 2 (and notwithstanding Section 1.6 of the Definitions)]:	
[New Agreement (between [Transferee 1 and Transferee 2][Transferee and Remaining Party])]:	ISDA Master Agreement [dated as of_____][as per Section 1.11 of the Definitions] subject to [English law][the laws of the State of New York]

3. The terms of each Old Transaction to which this Novation Confirmation relates[, for identification purposes, are as follows:][shall be specified in the copy of the Old Confirmation attached hereto as Exhibit A.]

Reference Entity:
Reference Obligation:
Trade Date of Old Transaction:
Effective Date of Old Transaction:
Applicable Percentage of Old Transaction:
Scheduled Termination Date of Old Transaction:

4. The terms of each New Transaction to which this Novation Confirmation relates [are as follows:][shall be specified in Section[s] __ [,___and___] of] the copy of the Old Confirmation attached hereto as Exhibit A.][shall be specified in the New Confirmation attached hereto as Exhibit [A][B]].

Full First Calculation Period	Applicable, [commencing on [ ]] [commencing on [ ], with respect to any amounts to be paid by the Transferee, and [ ], with respect to any amounts to be paid by the Remaining Party.

5. Other Provisions: [[Additional Provisions relating to the New Transaction][Credit Support Documents relating to the New Transaction]]:

6. Miscellaneous Provisions: [Non-Reliance][ ]

7. Notice Details:

Telephone and/or Facsimile Numbers for Notices:
Transferee: [ ]
Remaining Party: [ ]

8. [The parties confirm their acceptance to be bound by this Novation Confirmation as of the Novation Date by executing a copy of this Novation Confirmation and returning it to us]. The Transferor, by its execution of a copy of this Novation Confirmation, agrees to the terms of the Novation Confirmation as it relates to each Old Transaction. The Transferee, by its execution of a

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copy of this Novation Confirmation, agrees to the terms of the Novation Confirmation as it relates to each New Transaction.].

9. The Remaining Party and the Transferee agree that, notwithstanding any provision in the Old Transaction to which this Novation Confirmation relates, all rights of the Remaining Party and the Transferor in respect of Floating Amounts and Additional Fixed Amounts that arose before the Novation Date shall be deemed to have been exercised and all obligations of such parties in respect of such events that have arisen or are deemed to have arisen shall be deemed to have been satisfied in full, in each case solely for the purposes of determining the rights and obligations of the Remaining Party and the Transferee under the New Transaction. Nothing in this paragraph shall affect the rights or obligations of the Remaining Party or the Transferor under the Old Transaction.

.....	.....
(Name of Remaining Party)	(Name of Transferor)
By:	By: .....
Name:	Name:
Title:	Title:
Date:	Date:

.....
(Name of Transferee)

By: .....
Name: .....
Title: .....
Date: .....

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Annex

1. Section 2(a) of the Novation Agreement shall be deemed to be amended as follows:

   (a) by the insertion of "(i) " after the words "with respect to" in the fifth line thereof; and

   (b) by the addition of the following at the end thereof:

   "and any rights or obligations arising in respect of Floating Amount Events or Additional Fixed Amount Events, in each case in respect of which the Remaining Party or the Transferor (each an "Original Party"), as applicable, had the right to deliver a notice pursuant to the terms of the Old Transaction but such notice was not delivered by that party or the Calculation Agent prior to the Novation Date (each an "Excluded Event") provided that the rights of the Original Parties to deliver a notice in respect of an Excluded Event pursuant to the Old Transaction shall expire on the 60thcalendar day following the Novation Date."

2. Section 2(b) of the Novation Agreement shall be deemed to be amended by the addition of the following after the words "Novation Date," in the last line thereof:

   "but excluding any rights or obligations in respect of Excluded Events,"

3. The definition of "Novated Amount" in Section 1.18 of the Definitions shall be replaced by the following definition of "Novated Percentage":

   ""Novated Percentage" means the portion of the Applicable Percentage of the Old Transaction that is the subject of the Novation Transaction. If the Novated Percentage is less than 100% of the Applicable Percentage of the Old Transaction, the Old Transaction shall remain in full force and effect but all future payments, deliveries and calculations thereunder shall be based on an Applicable Percentage that has been reduced by the relevant Novated Percentage."

   Each reference to "Novated Amount" in the Definitions and the Novation Agreement shall be deemed to be a reference to "Novated Percentage".

4. Section 2.1(a)(iii)(D)(i) of the Definitions shall not apply

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SCHEDULE I

FORM OF CONFIRMATION FOR ABX TRANCHE SECURITIES

Deutsche Bank AG

DATE: [Date]

TO: Gemstone CDO VII Ltd.
Facsimile No: [number]

FROM: [Deutsche Bank AG, acting through its New York Branch]

SUBJECT: ABX [specify series, tranche and version, if any] Transaction

REF NO: [ ]

The purpose of this communication (this "Confirmation") is to set forth the terms and conditions of the Master Transaction (as defined in the ABX Standard Terms (as defined below)) relating to residential mortgage-backed security reference obligations entered into between you Gemstone CDO VII Ltd. ("Party B") and us Deutsche Bank AG, acting through its New York Branch ("Party A"). This Confirmation constitutes a "Confirmation" as referred to in the ISDA Master Agreement specified below.

The definitions and provisions contained in the 2003 ISDA Credit Derivatives Definitions, as published by the International Swaps and Derivatives Association, Inc. (the "Credit Derivatives Definitions"), and the ABX Transactions Standard Terms Supplement, as published by CDS IndexCo LLC on January 19, 2006 (the "ABX Standard Terms"), are incorporated into this Confirmation. In the event of any inconsistency between the Credit Derivatives Definitions or the ABX Standard Terms and this Confirmation, this Confirmation will govern. In the event of any inconsistency between the ABX Standard Terms and the Credit Derivatives Definitions, the ABX Standard Terms will govern.

This Confirmation supplements, forms a part of and is subject to the 1992 ISDA Master Agreement (Multicurrency - Cross Border) and the Schedule thereto, dated as of [____], as amended and supplemented from time to time (the "Master Agreement"), between Party A and Party B. All provisions contained in, or incorporated by reference in, the Master Agreement shall govern this Confirmation except as expressly modified below.

The terms of the Master Transaction to which this Confirmation relates are as follows:

Index:	ABX [specify series, tranche, and version, if any]
Annex Date:	[launch date of Index]
Trade Date:	[ ]
Effective Date:	[Trade Date]
Scheduled Termination Date:	[the latest Legal Final Maturity Date of any Reference Obligation in the Relevant Annex]
Floating Rate Payer:	[ ] (the "Seller")

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Fixed Rate Payer:	[ ] (the "Buyer")
Aggregate Floating Rate Payer Calculation Amount:	[ ]
Fixed Rate:	[ ]% per annum [specify the fixed rate for the Index published by the Index Publisher as of the launch date]
Initial Payment Payer:	[Buyer][Seller]
Initial Payment Amount:	[ ]
[Additional Terms (if any):	[ ]]

Notice and Account Details:

Party A's Office/Telephone/Facsimile:	[address] Telephone: [ ] Facsimile: [ ]
Party B's Office/Telephone/Facsimile:	[address] Telephone: [ ] Facsimile: [ ]
Account Details of Party A:	For the Account of: [ ] Bank: [ ] Account No: [ ] Fed ABA No: [ ]
Account Details of Party B:	For the Account of: [ ] Bank: [ ] Account No: [ ] Fed ABA No: [ ]

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Please confirm your agreement to be bound by the terms of the foregoing by executing a copy of this Confirmation and returning it to us at the contact information listed above.

DEUTSCHE BANK AG, ACTING THROUGH ITS NEW YORK BRANCH

By:_____

Name:
Title:

By:_____

Name:
Title:

Confirmed as of the date first above written:

GEMSTONE CDO VII LTD.
By HBK Investments, L.P., New York Branch, as its Investment Manager

By:_____

Name:
Title:

By:_____

Name:
Title:

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[Relevant Annex

Reference Entity	Reference Obligation	Issuer	Guarantor/ Insurer	CUSIP/ ISIN	Bloomberg ID	Legal Final Maturity Date	Original Principal Amount (USD)	Initial Factor	Initial Face Amount	Coupon	Reference Policy

]

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ABX TRANSACTIONS
STANDARD TERMS SUPPLEMENT
(published on January 19, 2006)[1]

This ABX Transactions Standard Terms Supplement (the "ABX Standard Terms") hereby incorporates by reference the definitions and provisions contained in the 2003 ISDA Credit Derivatives Definitions, as published by the International Swaps and Derivatives Association, Inc. (the "Credit Derivatives Definitions"). In the event of any inconsistency between the Credit Derivatives Definitions and these ABX Standard Terms, these ABX Standard Terms will govern.

The parties agree that, by entering into a transaction governed by these ABX Standard Terms (a "Master Transaction"), they have entered into a separate Credit Derivative Transaction (each, a "Component Transaction") in respect of each Reference Obligation listed in the Relevant Annex (as defined below). Upon entering into a confirmation or other document (including in electronic form) (a "Confirmation") for a Master Transaction incorporating these ABX Standard Terms, the parties thereto shall be deemed to have entered into a Confirmation in respect of each such Component Transaction with respect to the related Reference Obligation listed in the Relevant Annex. Subject to paragraph 7 below and except as otherwise expressly provided herein or in the relevant Confirmation, each Component Transaction constitutes an independent Transaction for purposes of the Master Agreement (as specified in the relevant Confirmation).

References in these ABX Standard Terms to a Reference Obligation and the terms relating thereto shall be to the terms of such Reference Obligation set out in the applicable Underlying Instruments (as defined below) as amended from time to time unless otherwise specified below.

The terms of each Component Transaction to which these ABX Standard Terms relate are as follows:

1. General Terms:

Index:	As shown in the relevant Confirmation.
Index Sponsor:	CDS IndexCo LLC
Trade Date:	As shown in the relevant Confirmation.
Effective Date:	As shown in the relevant Confirmation.
Scheduled Termination Date:	As shown in the relevant Confirmation.
Component Transaction Scheduled Termination Date:	With respect to a Component Transaction, the Legal Final Maturity Date for the applicable Reference Obligation, subject to adjustment in accordance with the Following Business Day Convention.

[1] The definitions and provisions of this ABX Transactions Standard Terms Supplement may be incorporated into a Confirmation (as defined herein) by wording in the Confirmation indicating that, or the extent to which, the Confirmation is subject to this ABX Transactions Standard Terms Supplement. All definitions and provisions so incorporated in a Confirmation will be applicable to that Confirmation unless otherwise provided in that Confirmation.

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Termination Date:	With respect to a Component Transaction, the last to occur of: (a) the fifth Business Day following the Effective Maturity Date in respect of the relevant Reference Obligation; (b) the last Floating Rate Payer Payment Date in respect of such Reference Obligation; and (c) the last Additional Fixed Amount Payment Date in respect of such Reference Obligation.
Floating Rate Payer:	As shown in the relevant Confirmation (the "Seller").
Fixed Rate Payer:	As shown in the relevant Confirmation (the "Buyer").
Aggregate Floating Rate Payer Calculation Amount:	As shown in the relevant Confirmation.
Calculation Agent:	If both parties are licensees of the Index, Seller. If only one party is a licensee of the Index, such party.
Calculation Agent City:	New York.
Business Day:	New York and London.
Business Day Convention:	Following (which, with the exception of the Effective Date, the Final Amortization Date, each Reference Obligation Payment Date and the period end date of each Reference Obligation Calculation Period, shall apply to any date referred to in these ABX Standard Terms that falls on a day that is not a Business Day).
Reference Entity:	With respect to a Component Transaction, the applicable Reference Entity contained in the Index and listed in the Relevant Annex, and any entity that succeeds to the obligations of such Reference Entity under the related Reference Obligation. Section 2.2 of the Credit Derivatives Definitions shall not apply.
Reference Obligation:	With respect to a Component Transaction, the Reference Obligation specified in the Index and set out opposite the applicable Reference Entity in the Relevant Annex. Section 2.30 of the Credit Derivatives Definitions shall not apply. The Reference Obligation is used herein solely to make certain calculations hereunder and there is no requirement that Buyer or Seller own the Reference

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	Obligation.
Relevant Annex:	The list of Reference Entities and Reference Obligations for the relevant Index with the relevant Annex Date, as published by the Index Publisher (which can be accessed currently at http://www.markit.com). "Index Publisher" means Markit Group Limited (or its successor) or any replacement therefor appointed by the Index Sponsor for purposes of officially publishing the relevant Index.
Applicable Percentage:	On any day, with respect to a Reference Obligation, a percentage equal to A divided by B. "A" means, with respect to a Reference Obligation, the product of the Initial Face Amount and the Initial Factor. "B" means, with respect to a Reference Obligation, the product of the Original Principal Amount and the Initial Factor. (a) as increased by the outstanding principal balance of any further issues by the Reference Entity that are fungible with and form part of the same legal series as such Reference Obligation; and (b) as decreased by any cancellations of some or all of the Outstanding Principal Amount resulting from purchases of such Reference Obligation by or on behalf of the Reference Entity.
Initial Face Amount:	The Aggregate Floating Rate Payer Calculation Amount divided by the number of Reference Obligations in the Relevant Annex.
Initial Factor:	With respect to a Reference Obligation, the applicable factor published by the Index Publisher as of the Annex Date.
Reference Obligation Notional Amount:	With respect to a Reference Obligation, on the Annex Date, the product of: (a) the Original Principal Amount; (b) the Initial Factor; and (c) the Applicable Percentage.

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Following the Annex Date, the Reference Obligation Notional Amount with respect to a Reference Obligation will be:

(i) decreased on each day on which a Principal Payment is made with respect to the Reference Obligation by the relevant Principal Payment Amount;

(ii) decreased on the day, if any, on which a Failure to Pay Principal occurs with respect to the Reference Obligation by the relevant Principal Shortfall Amount;

(iii) decreased on each day on which a Writedown occurs with respect to the Reference Obligation by the relevant Writedown Amount; and

(iv) increased on each day on which a Writedown Reimbursement occurs with respect to the Reference Obligation by any Writedown Reimbursement Amount in respect of a Writedown Reimbursement within paragraphs (ii) or (iii) of the definition of "Writedown Reimbursement";

provided that if the relevant Reference Obligation Notional Amount would be less than zero, it shall be deemed to be zero.

Initial Payment:	If an Initial Payment Payer and an Initial Payment Amount are specified in the relevant Confirmation, then on the date that is five Business Days following the Trade Date, and with respect to the Master Transaction and all related Component Transactions in the aggregate, the Initial Payment Payer shall pay to the other party the Initial Payment Amount. For the avoidance of doubt, the Initial Payment will not be made separately in respect of each Component Transaction.
Initial Payment Payer	As shown in the relevant Confirmation.
Initial Payment Amount:	As shown in the relevant Confirmation.

2. Fixed Payments:

Fixed Rate:	As shown in the relevant Confirmation.
Fixed Rate Payer Period End	The first day of each related Reference Obligation

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Date:	Calculation Period.
Fixed Rate Payer Calculation Period:	Each period from and including one Fixed Rate Payer Period End Date to but excluding the next following Fixed Rate Payer Period End Date, except that (a) the initial Fixed Rate Payer Calculation Period will commence on, and include, the later of the Annex Date and the Fixed Rate Payer Period End Date falling on or immediately prior to the Trade Date and (b) the Final Fixed Rate Payer Calculation Period will end on, but include, the last day of the last Reference Obligation Calculation Period immediately prior to the final Fixed Rate Payer Payment Date.
Fixed Rate Payer Payment Dates:	With respect to a Component Transaction, each day falling five Business Days after a Reference Obligation Payment Date for the Reference Obligation; provided that the final Fixed Rate Payer Payment Date shall fall on the fifth Business Day following the Effective Maturity Date of the Reference Obligation.
Fixed Amount:	With respect to any Fixed Rate Payer Payment Date for a Component Transaction, an amount equal to the product of: (a) the relevant Fixed Rate; (b) an amount determined by the Calculation Agent equal to: (i) the sum of the relevant Reference Obligation Notional Amount as at 5:00 p.m. in the Calculation Agent City on each day in the related Fixed Rate Payer Calculation Period; divided by (ii) the actual number of days in the related Fixed Rate Payer Calculation Period; and (c) the actual number of days in the related Fixed Rate Payer Calculation Period divided by 360. Notwithstanding anything to the contrary herein, Buyer shall not be obligated to pay Fixed Amounts for any Fixed Rate Payer Payment Date occurring prior to the Effective Date.
Additional Fixed Amount Payment Dates:	With respect to a Reference Obligation: (a) Each relevant Fixed Rate Payer Payment Date;

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and

(b) in relation to each relevant Additional Fixed Payment Event occurring after the second Business Day prior to the last relevant Fixed Rate Payer Payment Date, the fifth Business Day after Buyer has received notification from Seller or the Calculation Agent of the occurrence of such Additional Fixed Payment Event.

Additional Fixed Payments: Following the occurrence of an Additional Fixed Payment Event in respect of a Reference Obligation, Buyer shall pay the relevant Additional Fixed Amount to Seller on the first Additional Fixed Amount Payment Date for such Reference Obligation falling at least two Business Days (or in the case of an Additional Fixed Payment Event that occurs after the second Business Day prior to the last Fixed Rate Payer Payment Date for such Reference Obligation, five Business Days) after the delivery of a notice (an "Additional Fixed Payment Amount Notice") by the Calculation Agent to the parties or by Seller to Buyer stating that the related Additional Fixed Amount is due and showing in reasonable detail how such Additional Fixed Amount was determined; provided that any such notice must be given on or prior to the fifth Business Day following the day that is one calendar year after the Effective Maturity Date of such Reference Obligation. Notwithstanding anything to the contrary herein, Buyer shall not be obligated to pay an Additional Fixed Amount unless the earliest day on which the related Additional Fixed Payment Date can be designated in accordance with the provisions hereof occurs on or following the Effective Date.

Additional Fixed Payment Event: The occurrence on or after the Annex Date and on or before the day that is one calendar year after the Effective Maturity Date of a Writedown Reimbursement, a Principal Shortfall Reimbursement or an Interest Shortfall Reimbursement in respect of a Reference Obligation.

Additional Fixed Amount: With respect to each Additional Fixed Amount Payment Date in respect of a Reference Obligation, an amount equal to the sum of:

(a) the relevant Writedown Reimbursement Payment Amount (if any);

(b) the relevant Principal Shortfall

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Reimbursement Payment Amount (if any); and

(c) the relevant Interest Shortfall Reimbursement Payment Amount (if any).

3. Floating Payments:

Floating Rate Payer Payment Dates:	In relation to a Floating Amount Event with respect to a Reference Obligation, the first relevant Fixed Rate Payer Payment Date falling at least two Business Days (or in the case of a Floating Amount Event that occurs on the Legal Final Maturity Date or the Final Amortization Date of such Reference Obligation, the fifth Business Day) after delivery of a notice (a "Floating Payment Notice") by the Calculation Agent to the parties or a notice by Buyer to Seller that the related Floating Amount is due and showing in reasonable detail how such Floating Amount was determined; provided that any such notice must be given on or prior to the fifth Business Day following the Effective Maturity Date.
Floating Payments:	If a Floating Amount Event occurs with respect to a Reference Obligation, then on the relevant Floating Rate Payer Payment Date, Seller will pay the relevant Floating Amount to Buyer. Notwithstanding anything to the contrary herein, Seller shall not be obligated to pay a Floating Amount unless the earliest day on which the related Floating Rate Payer Payment Date can be designated in accordance with the provisions hereof occurs on or following the Effective Date. For the avoidance of doubt, the Conditions to Settlement under the Credit Derivatives Definitions shall not apply.
Floating Amount Event:	A Writedown, a Failure to Pay Principal or an Interest Shortfall.
Floating Amount:	With respect to each Floating Rate Payer Payment Date in respect of a Reference Obligation, an amount equal to the sum of: (a) the relevant Writedown Amount (if any); (b) the relevant Principal Shortfall Amount (if any); and (c) the relevant Interest Shortfall Payment Amount (if any).

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4. Interest Shortfall

Interest Shortfall Payment Amount:	In respect of an Interest Shortfall with respect to a Reference Obligation, the relevant Interest Shortfall Amount; provided that if the relevant Interest Shortfall Amount exceeds the Interest Shortfall Cap Amount, the Interest Shortfall Payment Amount in respect of such Interest Shortfall shall be the Interest Shortfall Cap Amount.
Interest Shortfall Cap Amount:	As set out in the Interest Shortfall Cap Annex.
Actual Interest Amount:	With respect to any Reference Obligation Payment Date in respect of a Reference Obligation, payment by or on behalf of the Issuer of an amount in respect of interest due under such 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 such Reference Obligation in respect of such Reference Obligation.
Expected Interest Amount:	With respect to any Reference Obligation Payment Date in respect of a Reference Obligation, the amount of current interest that would accrue during the related Reference Obligation Calculation Period calculated using the Reference Obligation Coupon on a principal balance of such 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 such Reference Obligation minus (b) the Aggregate Implied Writedown Amount (if any) for such Reference Obligation and that will be payable on the related Reference Obligation Payment Date assuming for this purpose that sufficient funds are available therefor in accordance with the Underlying Instruments. Except as provided in (a) in the previous sentence, the Expected Interest Amount in respect of a Reference Obligation shall be determined without regard to (i) unpaid amounts in respect of accrued interest on prior Reference Obligation Payment Dates or (ii) any prepayment penalties or yield maintenance provisions. The Expected Interest Amount shall be determined without regard to the effect of any provisions (however described) of the Underlying Instruments that otherwise permit the limitation of due payments to distributions of funds from proceeds of the Underlying Assets, or that provide for the capitalization or deferral of interest on such Reference

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Obligation, or that provide for the extinguishing or reduction of such payments or distributions (but, for the avoidance of doubt, taking account of any Writedown within paragraph (i) of the definition of "Writedown" occurring in accordance with the relevant Underlying Instruments).

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

For the avoidance of doubt, the occurrence of an event within (a) or (b) shall be determined taking into account any payment made under the relevant Reference Policy, if applicable.

Interest Shortfall Amount: With respect to any Reference Obligation Payment Date in respect of a Reference Obligation, an amount equal to the greater of:

(a) zero; and

(b) the amount equal to the product of:

(i) (A) the Expected Interest Amount;

minus

(B) the Actual Interest Amount; and

(ii) the Applicable Percentage;

provided that, with respect to the first Reference Obligation Payment Date in respect of such Reference Obligation, the Interest Shortfall Amount shall be the amount determined in accordance with (a) and (b) above multiplied by a fraction equal to:

(x) the number of days in the first Fixed Rate Payer Calculation Period with respect to such Reference Obligation; over

(y) the number of days in the first Reference Obligation Calculation Period with respect to such Reference Obligation.

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Interest Shortfall Reimbursement:	With respect to any Reference Obligation Payment Date for a Reference Obligation, the payment by or on behalf of the Issuer of an Actual Interest Amount in respect of such Reference Obligation that is greater than the Expected Interest Amount.
Interest Shortfall Reimbursement Amount:	With respect to any Reference Obligation Payment Date in respect of a Reference Obligation, the product of (a) the amount of any Interest Shortfall Reimbursement on such day and (b) the Applicable Percentage.
Interest Shortfall Reimbursement Payment Amount:	The amount determined pursuant to the Interest Shortfall Cap Annex.

5. Additional Provisions:

(a) Calculation Agent and Buyer and Seller Determinations

The Calculation Agent shall be responsible for determining and calculating, for each Reference Obligation, (i) the Fixed Amount payable on each Fixed Rate Payer Payment Date; (ii) the occurrence of a Floating Amount Event and the related Floating Amount and (iii) the occurrence of an Additional Fixed Payment Event and the related Additional Fixed Amount; provided that notwithstanding the above, each of Buyer and Seller shall be entitled to determine and calculate the above amounts to the extent that Buyer or Seller, as applicable, has the right to deliver a notice to the other party demanding payment of such amount. The Calculation Agent or Buyer or Seller, as applicable, shall make such determinations and calculations based solely on composite data compiled and published by the Index Publisher from applicable Servicer Reports ("Composite Data") or, if such Composite Data is not available, from applicable Servicer Reports, to the extent such Servicer Reports are reasonably available to the Calculation Agent or such party. The Calculation Agent, Buyer or Seller may rely on calculations or determinations published by the Index Publisher in making such determinations and calculations. The Calculation Agent or Buyer or Seller, as applicable, shall, as soon as practicable after making any of the determinations or calculations specified in (i) and (ii) above, notify the parties or the other party, as applicable, of such determinations and calculations.

(b) Adjustment of Calculation Agent Determinations

To the extent that a Servicer furnishes any Servicer Reports correcting information contained in previously issued Servicer Reports or the Index Publisher corrects any previously published Composite Data (or other relevant calculation or determination published by the Index Publisher), and such corrections impact calculations or determinations pursuant to a Component Transaction, the calculations or determinations relevant to such Component Transaction shall be adjusted retroactively by the Calculation Agent to reflect the corrected information (provided that, for the avoidance of doubt, no amounts in respect of interest shall be payable by either party and provided that the Calculation Agent in performing the calculations or determinations pursuant to this paragraph will assume that no interest has accrued on any adjusted amount), and the Calculation Agent shall promptly notify both parties of any corrected payments required by either party. Any required corrected payments shall be made on the second Fixed Rate Payer Payment Date following the day on which such notification by the Calculation Agent is effective.

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(c) Initial Payment Date Following Annex Date

Notwithstanding anything to the contrary herein, with respect to any Component Transactions, any amount that would otherwise be payable hereunder on the first Fixed Rate Payer Payment Date following the Annex Date will be deemed to be payable instead on the second Fixed Rate Payer Payment Date following the Annex Date (together with any other amounts payable on such date).

6. Additional Definitions and Amendments to the Credit Derivatives Definitions

(a) References in Section 9.1(a) of the Credit Derivatives Definitions as well as Section 3(a)(iv) of the form of Novation Agreement set forth in Exhibit E to the Credit Derivatives Definitions to the Reference Entity shall be deemed to be references to each Reference Entity and the Insurer in respect of the relevant Reference Policy, if applicable.

(b) For the purposes of each Component Transaction, the following terms have the meanings given below:

"Actual Principal Amount" means, with respect to a Reference Obligation and the Final Amortization Date or the Legal Final Maturity Date, an amount paid on such day by or on behalf of the relevant Issuer in respect of principal (excluding any capitalized interest) to the holder(s) of such Reference Obligation in respect of such Reference Obligation.

"Aggregate Implied Writedown Amount" means, with respect to a Reference Obligation, the greater of (i) zero and (ii) the aggregate of all Implied Writedown Amounts minus the aggregate of all Implied Writedown Reimbursement Amounts.

"Current Period Implied Writedown Amount" means, with respect to a Reference Obligation in respect of a Reference Obligation Calculation Period, an amount determined as of the last day of such Reference Obligation Calculation Period equal to the greater of:

(i) zero; and

(ii) the product of:

(A) the Implied Writedown Percentage; and

(B) the greater of:

(1) zero; and

(2) the lesser of (x) the Pari Passu Amount and (y) the Pari Passu Amount plus the Senior Amount minus the aggregate outstanding asset pool balance backing the payment obligations on such Reference Obligation (all such outstanding asset pool balances as obtained by the Calculation Agent from the most recent Composite Data or from the most recent Servicer Report for such Reference Obligation available as of such day), calculated based on the face amount of the assets then in such pool, whether or not any such asset is performing.

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"Effective Maturity Date" means, with respect to a Reference Obligation, the earlier of (a) the Component Transaction Scheduled Termination Date and (b) the Final Amortization Date.

"Expected Principal Amount" means, with respect to a Reference Obligation and the Final Amortization Date or the Legal Final Maturity Date, an amount equal to (i) the Outstanding Principal Amount of such Reference Obligation payable on such day (excluding capitalized interest) assuming for this purpose that sufficient funds are available for such payment, where such amount shall be determined in accordance with the Underlying Instruments, minus (ii) the sum of (A) the Aggregate Implied Writedown Amount (if any) and (B) the net aggregate principal deficiency balance or realized loss amounts (however described in the Underlying Instruments) that are attributable to such Reference Obligation. The Expected Principal Amount shall be determined without regard to the effect of any provisions (however described) of the Underlying Instruments that permit the limitation of due payments or distributions of funds in accordance with the terms of such Reference Obligation or that provide for the extinguishing or reduction of such payments or distributions.

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

"Final Amortization Date" means, with respect to a Reference Obligation, the first to occur of (i) the date on which the Reference Obligation Notional Amount is reduced to zero and (ii) the date on which the assets backing 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.

"Implied Writedown Amount" means, with respect to a Reference Obligation, (i) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) of the definition of "Writedown" to occur in respect of the Reference Obligation, on any Reference Obligation Payment Date, an amount determined by the Calculation Agent equal to the excess, if any, of the Current Period Implied Writedown Amount over the Previous Period Implied Writedown Amount, in each case in respect of the Reference Obligation Calculation Period to which such Reference Obligation Payment Date relates, and (ii) in any other case, zero.

"Implied Writedown Percentage" means, with respect to a Reference Obligation, (i) the Outstanding Principal Amount divided by (ii) the Pari Passu Amount.

"Implied Writedown Reimbursement Amount" means, with respect to a Reference Obligation, (i) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) of the definition of "Writedown" to occur in respect of the Reference Obligation, on any Reference Obligation Payment Date, an amount determined by the Calculation Agent equal to the excess, if any, of the Previous Period Implied Writedown Amount for the Reference Obligation over the Current Period Implied Writedown

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Amount for the Reference Obligation, in each case in respect of the Reference Obligation Calculation Period to which such Reference Obligation Payment Date relates, and (ii) in any other case, zero; provided that the aggregate of all Implied Writedown Reimbursement Amounts for a Reference Obligation at any time shall not exceed the product of the Pari Passu Amount for the Reference Obligation and the Implied Writedown Percentage for the Reference Obligation.

"Insurer" means, with respect to a Reference Obligation, the insurer of such Reference Obligation specified in the Relevant Annex.

"Issuer" means, with respect to a Reference Obligation, the issuer of such Reference Obligation specified in the Relevant Annex.

"Legal Final Maturity Date" means, with respect to a Reference Obligation, the date set out in the Relevant Annex for such Reference Obligation (subject, for the avoidance of doubt, to any business day convention applicable to the legal final maturity date of such Reference Obligation), provided that if the legal final maturity date of such Reference Obligation is amended, the Legal Final Maturity Date shall be such date as amended.

"Original Principal Amount" means, with respect to a Reference Obligation, the amount specified as such in the Relevant Annex.

"Outstanding Principal Amount" means, with respect to a Reference Obligation as of any date of determination, the outstanding principal balance of such Reference Obligation as of such date, which shall take into account:

(i) all payments of principal;

(ii) all writedowns or applied losses (however described in the Underlying Instruments) resulting in a reduction in the outstanding principal balance of such Reference Obligation (other than as a result of a scheduled or unscheduled payment of principal);

(iii) forgiveness of any amount by the holders of such Reference Obligation pursuant to an amendment to the Underlying Instruments resulting in a reduction in the outstanding principal balance of such Reference Obligation;

(iv) any payments reducing the amount of any reductions described in (ii) and (iii) of this definition; and

(v) any increase in the outstanding principal balance of such Reference Obligation that reflects a reversal of any prior reductions described in (ii) and (iii) of this definition).

"Pari Passu Amount" means, with respect to a Reference Obligation 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 relevant Reference Entity backed by the relevant Underlying Assets and ranking *pari passu* in priority with such Reference Obligation.

"Previous Period Implied Writedown Amount" means, with respect to a Reference Obligation in respect of a Reference Obligation Calculation Period, the Current Period Implied Writedown Amount as determined in relation to the last day of the immediately preceding Reference Obligation Calculation Period for such Reference Obligation.

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"Principal Payment" means, with respect to a Reference Obligation and any Reference Obligation Payment Date, the occurrence of a payment of an amount to the holders of such Reference Obligation in respect of principal (scheduled or unscheduled) in respect of such Reference Obligation other than a payment in respect of principal representing capitalized interest, excluding, for the avoidance of doubt, any relevant Writedown Reimbursement or Interest Shortfall Reimbursement.

"Principal Payment Amount" means, with respect to any Reference Obligation Payment Date for a Reference Obligation, an amount equal to the product of (i) the amount of any Principal Payment on such date and (ii) the Applicable Percentage.

"Principal Shortfall Amount" means, with respect to a Reference Obligation, in respect of a Failure to Pay Principal, an amount equal to the greater of:

(i) zero; and

(ii) the amount equal to the product of:

(A) the Expected Principal Amount minus the relevant Actual Principal Amount; and

(B) the Applicable Percentage;

If the Principal Shortfall Amount in respect of a Reference Obligation would be greater than the Reference Obligation Notional Amount immediately prior to the occurrence of such Failure to Pay Principal, then such Principal Shortfall Amount shall be deemed to be equal to the Reference Obligation Notional Amount at such time.

"Principal Shortfall Reimbursement" means, with respect to a Reference Obligation on any day, the payment by or on behalf of the relevant Issuer of an amount in respect of such Reference Obligation in or toward the satisfaction of any deferral of or failure to pay principal arising from one or more prior occurrences of a Failure to Pay Principal.

"Principal Shortfall Reimbursement Amount" means, with respect to a Reference Obligation on any day, the product of (i) the amount of any relevant Principal Shortfall Reimbursement on such day and (ii) the relevant Applicable Percentage.

"Principal Shortfall Reimbursement Payment Amount" means, with respect to a Reference Obligation and an Additional Fixed Amount Payment Date, the sum of the Principal Shortfall Reimbursement Amounts in respect of all Principal Shortfall Reimbursements (if any) made during the Reference Obligation Calculation Period relating to such Additional Fixed Amount Payment Date (or, in the case of an Additional Fixed Amount Payment Date after the final Fixed Rate Payer Payment Date, made on the related Reference Obligation Payment Date), provided that the aggregate of all such Principal Shortfall Reimbursement Payment Amounts at any time shall not exceed the aggregate of all Floating Amounts (determined without regard to the Effective Date) in respect of occurrences of Failure to Pay Principal prior to such Additional Fixed Amount Payment Date.

"Reference Obligation Calculation Period" means, with respect to a Reference Obligation and each Reference Obligation Payment Date, a period corresponding to the interest accrual period relating to such Reference Obligation Payment Date pursuant to the relevant Underlying Instruments.

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"Reference Obligation Coupon" means, with respect to a Reference Obligation, the periodic interest rate applied in relation to each related Reference Obligation Calculation Period on the related Reference Obligation Payment Date, as determined in accordance with the terms of the relevant Underlying Instruments as at the Annex Date, without regard to any subsequent amendment.

"Reference Obligation Payment Date" means, with respect to a Reference Obligation, (i) each scheduled distribution date for such Reference Obligation occurring on or after the Annex Date and on or prior to the Component Transaction Scheduled Termination Date, determined in accordance with the Underlying Instruments and (ii) any day after the Effective Maturity Date on which a payment is made in respect of such Reference Obligation.

"Reference Policy" means, with respect to a Reference Obligation, the reference policy for such Reference Obligation specified in the Relevant Annex.

"Senior Amount" means, with respect to a Reference Obligation as of any day, the aggregate outstanding principal balance of all obligations of the Reference Entity backed by the Underlying Assets and ranking senior in priority to such Reference Obligation.

"Servicer" means, with respect to a Reference Obligation, any trustee, servicer, sub-servicer, master servicer, fiscal agent, paying agent or other similar entity responsible for calculating payment amounts or providing reports pursuant to the Underlying Instruments.

"Servicer Reports" means, with respect to a Reference Obligation, periodic statements or reports regarding the Reference Obligation provided by the Servicer to holders of the Reference Obligation.

"Underlying Assets" means, with respect to a Reference Obligation, the assets backing the Reference Obligation for the benefit of the holders of such Reference Obligation and which are expected to generate the cashflows required for the servicing and repayment (in whole or in part) of such Reference Obligation, or the assets to which a holder of such Reference Obligation is economically exposed where such exposure is created synthetically.

"Underlying Instruments" means, with respect to a Reference Obligation, the indenture, trust agreement, pooling and servicing agreement or other relevant agreement(s) setting forth the terms of the Reference Obligation.

"Writedown" means, with respect to a Reference Obligation, the occurrence at any time on or after the Annex Date of:

(i) (A) a writedown or applied loss (however described in the Underlying Instruments) resulting in a reduction in the Outstanding Principal Amount of such Reference Obligation (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 such Reference Obligation resulting in a reduction or subordination of the current interest payable on such Reference Obligation;

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(ii) the forgiveness of any amount of principal by the holders of such Reference Obligation pursuant to an amendment to the Underlying Instruments resulting in a reduction in the Outstanding Principal Amount; or

(iii) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) above to occur in respect of such Reference Obligation, an Implied Writedown Amount being determined in respect of such Reference Obligation by the Calculation Agent.

"Writedown Amount" means, with respect to a Reference Obligation on any day, the product of (i) the amount of any Writedown with respect to such Reference Obligation on such day and (ii) the Applicable Percentage.

"Writedown Reimbursement" means, with respect to a Reference Obligation on any day, the occurrence of:

(i) a payment by or on behalf of the Issuer of an amount in respect of such Reference Obligation in reduction of any prior Writedowns;

(ii) (A) an increase by or on behalf of the Issuer of the Outstanding Principal Amount of such Reference Obligation to reflect the reversal of any prior Writedowns; or

(B) a decrease in the principal deficiency balance or realized loss amounts (however described in the Underlying Instruments) attributable to such Reference Obligation; or

(iii) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (ii) above to occur in respect of such Reference Obligation, an Implied Writedown Reimbursement Amount being determined in respect of such Reference Obligation by the Calculation Agent.

"Writedown Reimbursement Amount" means, with respect to a Reference Obligation on any day, an amount equal to the product of:

(i) the sum of all Writedown Reimbursements with respect to such Reference Obligation on that day; and

(ii) the Applicable Percentage;

"Writedown Reimbursement Payment Amount" means, with respect to a Reference Obligation and an Additional Fixed Amount Payment Date, the sum of the Writedown Reimbursement Amounts in respect of all Writedown Reimbursements (if any) during the Reference Obligation Calculation Period relating to such Additional Fixed Amount Payment Date (or, in the case of an Additional Fixed Amount Payment Date after the final Fixed Rate Payer Payment Date, on the related Reference Obligation Payment Date or date of determination of an Implied Writedown Reimbursement Amount, as the case may be), provided that the aggregate of all such Writedown Reimbursement Payment Amounts at any time shall not exceed the aggregate of all Floating Amounts with respect to such Reference Obligation (determined without regard to the Effective Date) in respect of Writedowns occurring prior to such Additional Fixed Amount Payment Date.

7. Transfer and Termination of Component Transactions

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Without prejudice to Section 7 of the Master Agreement specified in the relevant Confirmation, the Component Transactions (or any part thereof) to which these ABX Standard Terms relate may only be transferred (by way of assignment, novation or otherwise) or terminated prior to the Component Transaction Scheduled Termination Date thereof (other than in accordance with the terms hereof) together with an equal part (by Initial Face Amount) of each other Component Transaction forming part of the Master Transaction of which it forms a part.

8. Disclaimers

(a) ABX™ is a service mark of the Index Sponsor and has been licensed for use in connection with the Master Transaction.

(b) The Index referenced herein is the property of the Index Sponsor and has been licensed for use in connection with the transaction hereunder. Each party acknowledges and agrees that the transaction hereunder is not sponsored, endorsed, or promoted by the Index Sponsor or any members of the Index Sponsor (the Index Sponsor, together with its members, the "Index Parties"). The Index Parties make no representation whatsoever, whether express or implied, and hereby expressly disclaim all warranties (including, without limitation, those of merchantability or fitness for a particular purpose or use), with respect to the Index or any data included therein or relating thereto, and in particular disclaim any warranty either as to the quality, accuracy and/or completeness of the Index or any data included therein, the results obtained from the use of the Index and/or the composition of the Index at any particular time on any particular date or otherwise and/or the creditworthiness of any entity, or the likelihood of the occurrence of a Floating Amount Event with respect to an obligation, in the Index at any particular time on any particular date or otherwise. The Index Parties shall not be liable (whether in negligence or otherwise) to the parties or any other person for any error in the Index, and the Index Parties are under no obligation to advise the parties or any person of any error therein. The Index Parties make no representation whatsoever, whether express or implied, as to the advisability of entering into the transaction hereunder, the ability of the Index to track relevant markets' performances, or otherwise relating to the Index or any transaction or product with respect thereto, or of assuming any risks in connection therewith. The Index Parties have no obligation to take the needs of any party into consideration in determining, composing or calculating the Index. Neither party to this transaction, nor any Index Party, shall have any liability to any party for any act or failure to act by the Index Parties in connection with the determination, adjustment, calculation or maintenance of the Index. Although the Calculation Agent will obtain information concerning the Index from sources it believes reliable, it will not independently verify this information. Accordingly, no representation, warranty or undertaking (express or implied) is made, and no responsibility is accepted by either party, its Affiliates or the Calculation Agent, as to the accuracy, completeness or timeliness of information concerning the Index. Each party acknowledges that the other party or one of its affiliates may be, or may be affiliated with, an Index Party and, as such, may be able to affect or influence the determination, adjustment or maintenance of the Index. For purposes of Sections 9.1(b)(iii) and (iv) of the Credit Derivatives Definitions, references to "each party" therein shall be deemed to include each Index Party.

(c) Without limitation of Section 9.1(b)(iv) of the Credit Derivatives Definitions (as modified above), each party acknowledges that the other party or its Affiliates or the Calculation Agent may act from time to time as an originator, sponsor, servicer, administrator, trustee, underwriter or market maker, or otherwise act in a capacity as a result of which such party or its Affiliates may be in possession of information in relation to one or more Reference Obligations or Reference Entities contained in the Index which may be material in the context of one or more Component Transactions and that may or may not be publicly available or known to the other party. No

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furnishing by a party or its Affiliates or the Calculation Agent of any notice, report, or other information with respect to any Reference Obligation or any Reference Entity ("Reference Obligation Information") shall prejudice the foregoing provision or Section 9.1(b)(iv) of the Credit Derivatives Definitions, constitute a representation or warranty as to the correctness or completeness of such Reference Obligation Information, give rise to any duty to supplement, update or revise the Reference Obligation Information so provided, or otherwise result in such party or the Calculation Agent having any responsibility for the content of such Reference Obligation Information.

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Interest Shortfall Cap Annex

Interest Shortfall Cap Amount:	The Interest Shortfall Cap Amount in respect of an Interest Shortfall for a Reference Obligation shall be the Fixed Amount calculated in respect of the Fixed Rate Payer Payment Date immediately following the Reference Obligation Payment Date on which the relevant Interest Shortfall occurred.
Interest Shortfall Reimbursement Payment Amount:	The first Additional Fixed Amount Payment Date for a Reference Obligation, zero, and with respect to any subsequent Additional Fixed Amount Payment Date for such Reference Obligation and calculated as of the Reference Obligation Payment Date immediately preceding such Additional Fixed Amount Payment Date, as specified by the Calculation Agent in its notice to the parties or by Seller in its notice to Buyer of the existence of an Interest Shortfall Reimbursement for such Reference Obligation, an amount equal to the greater of: (a) zero; and (b) the amount equal to: (i) the product of: (A) the Cumulative Interest Shortfall Payment Amount as of the Additional Fixed Amount Payment Date immediately preceding such Reference Obligation Payment Date; and (B) the relevant Cumulative Interest Shortfall Payment Compounding Factor for the Fixed Rate Payer Calculation Period immediately preceding such Additional Fixed Amount Payment Date (or 1.0 in respect of any Additional Fixed Amount Payment Date occurring after the final Fixed Rate Payer Payment Date for such Reference Obligation); minus (ii) the Cumulative Interest Shortfall Amount as of such Reference Obligation Payment Date;

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provided that if the Interest Shortfall Reimbursement Payment Amount on an Additional Fixed Amount Payment Date for such Reference Obligation would exceed the Interest Shortfall Reimbursement Amount in respect of the related Reference Obligation Payment Date, then such Interest Shortfall Reimbursement Payment Amount shall be deemed to be equal to such Interest Shortfall Reimbursement Amount.

Cumulative Interest Shortfall Amount: With respect to any Reference Obligation Payment Date for a Reference Obligation, an amount equal to the greater of:

(a) zero; and

(b) an amount equal to:

(i) the Cumulative Interest Shortfall Amount as of the Reference Obligation Payment Date for such Reference Obligation immediately preceding such Reference Obligation Payment Date or, in the case of the first Reference Obligation Payment Date, zero; plus

(ii) the Interest Shortfall Amount (if any) in respect of such Reference Obligation Payment Date; plus

(iii) an amount determined by the Calculation Agent as the amount of interest that would accrue on the Cumulative Interest Shortfall Amount immediately preceding such Reference Obligation Payment Date during the related Reference Obligation Calculation Period pursuant to the Underlying Instruments or, in the case of the first Reference Obligation Payment Date, zero; minus

(iv) the Interest Shortfall Reimbursement Amount (if any) in respect of such Reference Obligation Payment Date for such Reference Obligation.

Cumulative Interest Shortfall Payment Amount: With respect to any Fixed Rate Payer Payment Date and any Additional Fixed Amount Payment Date falling on such date, an amount equal to the greater of:

(a) zero; and

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(b) the amount equal to:

(i) the sum of:

(A) the Interest Shortfall Payment Amount for the Reference Obligation Payment Date corresponding to such Fixed Rate Payer Payment Date; and

(B) the product of:

(1) the Cumulative Interest Shortfall Payment Amount as of the Fixed Rate Payer Payment Date immediately preceding such Fixed Rate Payer Payment Date (or zero in the case of the first Fixed Rate Payer Payment Date); and

(2) the relevant Cumulative Interest Shortfall Payment Compounding Factor;

minus

(ii) any Interest Shortfall Reimbursement Payment Amount paid on such Fixed Rate Payer Payment Date.

With respect to any Additional Fixed Amount Payment Date falling after the final Fixed Rate Payer Payment Date, the Cumulative Interest Shortfall Payment Amount shall be equal to:

(x) the Cumulative Interest Shortfall Payment Amount as of the Additional Fixed Amount Payment Date immediately preceding such Additional Fixed Amount Payment Date (or as of the final Fixed Rate Payer Payment Date in the case of the first Additional Fixed Amount Payment Date occurring after the final Fixed Rate Payer Payment Date); minus

(y) any Interest Shortfall Reimbursement Payment Amount paid on such Additional Fixed Amount Payment Date.

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Cumulative Interest Shortfall Payment Compounding Factor: With respect to any Fixed Rate Payer Calculation Period in respect of a Reference Obligation, an amount equal to the sum of:

(a) 1.0;

plus

(b) the product of:

(i) the sum of (A) the Relevant Rate in respect of such Reference Obligation plus (B) the relevant Fixed Rate; and

(ii) the actual number of days in such Fixed Rate Payer Calculation Period divided by 360;

provided, however, that the Cumulative Interest Shortfall Payment Compounding Factor shall be deemed to be 1.0 during the period from but excluding the Effective Maturity Date to and including the Termination Date.

Relevant Rate: With respect to a Fixed Rate Payer Calculation Period in respect of a Reference Obligation, the relevant Floating Rate, expressed as a decimal number with seven decimal places, that would be determined if:

(a) the 2000 ISDA Definitions (and not the 2003 ISDA Credit Derivatives Definitions) applied to this paragraph;

(b) the Fixed Rate Payer Calculation Period were a "Calculation Period" for purposes of such determination; and

(c) the following terms applied:

(i) the Floating Rate Option were the Rate Source;

(ii) the Designated Maturity were the period that corresponds to the usual length of a Fixed Rate Payer Calculation Period; and

(iii) the Reset Date were the first day of the Calculation Period;

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provided, however, that the Relevant Rate shall be deemed to be zero during the period from but excluding the relevant Effective Maturity Date to and including the relevant Termination Date.

Rate Source: USD-LIBOR-BBA

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SCHEDULE J

FORM OF CONFIRMATION FOR CMBS SECURITIES

Deutsche Bank AG

Date: [ ]

To: Gemstone CDO VII Ltd.

Fax No: [ ]

From: Deutsche Bank AG, acting through its New York Branch

RE: Credit Derivative Transaction on Mortgage-Backed Security with Pay-As-You-Go or Physical Settlement (Form I) (Dealer Form) (CMBS)

Dear Sir/Madam

The purpose of this communication (the "Confirmation") is to confirm the terms and conditions of the Credit Derivative Transaction relating to a mortgage-backed security reference obligation entered into between you Gemstone CDO VII Ltd. ("Party B") and us Deutsche Bank AG, acting through its New York Branch ("Party A") on the Trade Date specified below (the "Transaction"). This Confirmation constitutes a "Confirmation" as referred to in the ISDA Master Agreement specified below.

The definitions and provisions contained in the 2003 ISDA Credit Derivatives Definitions (the "Credit Derivatives Definitions"), as published by the International Swaps and Derivatives Association, Inc. ("ISDA") and the ISDA Standard Terms Supplement for use with Credit Derivatives Transaction on Mortgage-Backed Security with Pay-As-You-Go or Physical Settlement, as published by ISDA on November 10, 2006 (the "CDS on MBS Terms"), and, if (i) the Additional Provisions for Optional Early Termination have been published by ISDA at the Trade Date and (ii) Optional Early Termination is specified as being applicable, the Additional Provisions for Optional Early Termination most recently published by ISDA, are incorporated into this Confirmation. In the event of any inconsistency between the Credit Derivatives Definitions or the CDS on MBS Terms and this Confirmation, this Confirmation will govern. In the event of any inconsistency between the CDS on MBS Terms and the Credit Derivatives Definitions, the CDS on MBS Terms will govern.

This Confirmation supplements, forms a part of, and is subject to, the ISDA Master Agreement, dated as of [-], 2007 as amended and supplemented from time to time (the "Agreement"), between you and us. All provisions contained in the Agreement govern this Confirmation except as expressly modified below.

The terms of the Transaction to which this Confirmation relates are as follows:

Trade Date: [ ]

Effective Date: [ ]

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Floating Rate Payer:	Party B (the "Seller").
Fixed Rate Payer:	Party A (the "Buyer").
Calculation Agent:	Party A, unless an Event of Default has occurred and is continuing with respect to Party A, in which case the Calculation Agent shall be a leading, independent dealer in derivatives selected by agreement between the parties within one Business Day of such Event of Default (the "Substitute Calculation Agent"), whose fees and expenses shall be met by Party A, whilst such Event of Default is continuing. If the parties are unable to agree on a Substitute Calculation Agent, each of the parties shall elect an independent dealer in derivatives and such two dealers shall agree on a third party, who shall be deemed to be the Substitute Calculation Agent. Party A shall be appointed to replace the Substitute Calculation Agent within one Business Day of the date on which no Event of Default is continuing in respect of Party A. All determinations by the Calculation Agent shall be made in good faith and in a commercially reasonable manner.
Calculation Agent City:	New York
Business Day:	New York and London
Reference Entity:	[ ]
Reference Obligation:	The obligation identified as follows: [Insurer: [ ]] CUSIP/ISIN: [ ] [Bloomberg ID: [ ]] Legal final maturity date: [ ] Original Principal Amount: [ ] Initial Factor: [ ] Issuer: The Reference Entity]
Reference Policy:	Not Applicable
Reference Price:	[●]%
Initial Face Amount:	[ ]
Initial Payment:	[Not Applicable] [On [the Effective Date], [Buyer]/[Seller] will pay [USD][ ] to [Seller]/[Buyer].]
Fixed Rate:	[ ]% per annum

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Fixed Rate Payer Payment Dates:	CMBS Convention
Fixed Amount:	Fixed Amount definition for underlying with payment delay
Additional Credit Event:	No Additional Credit Event
Interest Shortfall Cap:	Applicable
WAC Cap Interest Provision:	Applicable
Step-up provisions:	Not Applicable

If Interest Shortfall Cap is applicable, then specify:

Interest Shortfall Cap Basis:	Fixed Cap
Interest Shortfall Compounding:	Inapplicable
Rate Source:	USD-LIBOR-BBA
Optional Early Termination:	Not Applicable
Additional Terms:	The definition of "Fixed Amount" in the CDS on MBS Terms shall be deleted and replaced in its entirety with the following: "With respect to any Fixed Rate Payer Payment Date, an amount equal to the product of: (a) the Fixed Rate; (b) the Reference Obligation Notional Amount (as calculated without taking into consideration any adjustment in the Reference Obligation Notional Amount due to an Implied Writedown Amount) outstanding on the last day of the Reference Obligation Calculation Period related to such Fixed Rate Payer Payment Date, as adjusted for any increases or decreases of the Reference Obligation Notional Amount on the Reference Obligation Payment Date immediately preceding the related Reference Obligation Payment Date; and (c) the actual number of days in the related Fixed Rate Payer Calculation Period divided by 360."

Office, Notice and Account Details:

The Office of Buyer for this Transaction is: New York

The Office of Seller for this Transaction is: George Town, Grand Cayman, Cayman Islands

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Telephone, Telex and/or Facsimile Numbers and Contact Details for Notices:

Buyer:	Attention: New York Derivatives Documentation
Telephone:	(212) 250-9425
Fax:	(212) 797-0779
Email:	NYderivative.documentation@db.com
Seller:	[ ]
Account Details:	
Account Details of Buyer:	[ ]
Account Details of Seller:	[ ]

Please confirm your agreement to be bound by the terms of the foregoing by executing a copy of this Confirmation and returning it to us by facsimile.

Yours sincerely,

DEUTSCHE BANK AG, ACTING THROUGH ITS NEW YORK BRANCH

By:_____

Name:
Title:

By:_____

Name:
Title:

Confirmed as of the date first above written:

GEMSTONE CDO VII LTD.
By HBK Investments, L.P., New York Branch, as its Investment Manager

By:_____

Name:
Title:

By:_____

Name:
Title:

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ISDA STANDARD TERMS SUPPLEMENT FOR USE WITH CREDIT DERIVATIVE TRANSACTIONS ON MORTGAGE-BACKED SECURITY WITH PAY-AS-YOU-GO OR PHYSICAL SETTLEMENT[1]

(published on November 10, 2006)

This ISDA Standard Terms Supplement for use with Credit Derivative Transactions on Mortgage-Backed Security with Pay-As-You-Go or Physical Settlement (the "CDS on MBS Terms") hereby incorporates by reference the definitions and provisions contained in the 2003 ISDA Credit Derivatives Definitions as published by the International Swaps and Derivatives Association, Inc. ("ISDA") (the "Credit Derivatives Definitions"). In the event of any inconsistency between the Credit Derivatives Definitions and these CDS on MBS Terms, these CDS on MBS Terms will govern.[2]

References to the "Reference Obligation" in these CDS on MBS Terms or in the relevant Confirmation shall be to the terms of the Reference Obligation (as defined below) set out in the Underlying Instruments (as defined below) as amended from time to time unless otherwise specified below.

1. **General Terms:**

Trade Date:	As shown in the relevant Confirmation.
Effective Date:	As shown in the relevant Confirmation.
Scheduled Termination Date:	Subject to paragraph 6, the Legal Final Maturity Date of the Reference Obligation, subject to adjustment in accordance with the Following Business Day Convention.

THE FOOTNOTES TO THIS CDS ON MBS STANDARD TERMS SUPPLEMENT ARE PROVIDED FOR CLARIFICATION ONLY AND DO NOT CONSTITUTE ADVICE AS TO THE STRUCTURING OR DOCUMENTATION OF A CREDIT DERIVATIVE TRANSACTION.

ISDA has not undertaken to review all applicable laws and regulations of any jurisdiction in which the Credit Derivatives Definitions or these CDS on MBS Terms may be used. Therefore, parties are advised to consider the application of any relevant jurisdiction's regulatory, tax, accounting, exchange or other requirements that may exist in connection with the entering into and documenting of a privately negotiated credit derivative transaction.

1 The definitions and provisions in this ISDA Standard Terms Supplement for use with Credit Derivatives Transactions on Mortgage-Backed Security with Pay-As-You-Go or Physical Settlement may be incorporated into a Confirmation or other document (including in electronic form) (a "**Confirmation**") by wording in the Confirmation indicating that, or the extent to which, the Confirmation is subject to this ISDA Standard Terms Supplement for use with Credit Derivatives Transactions on Mortgage-Backed Security with Pay-As-You-Go or Physical Settlement. All definitions and provisions so incorporated in a Confirmation will be applicable to that Confirmation unless otherwise provided in that Confirmation.

2 Parties who wish to novate a trade documented by way of a Confirmation incorporating these CDS on MBS Terms should consider using the Form of Novation Confirmation set out in the Schedule to this ISDA Standard Terms Supplement.

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Termination Date:	The last to occur of: (a) the fifth Business Day following the Effective Maturity Date; (b) the last Floating Rate Payer Payment Date; (c) the last Delivery Date; and (d) the last Additional Fixed Amount Payment Date.
Floating Rate Payer:	As shown in the relevant Confirmation (the "Seller").
Fixed Rate Payer:	As shown in the relevant Confirmation (the "Buyer").
Calculation Agent:	As shown in the relevant Confirmation.
Calculation Agent City:	As shown in the relevant Confirmation.
Business Day:	As shown in the relevant Confirmation.
Business Day Convention:	Following (which, with the exception of the Effective Date, the Final Amortization Date, each Reference Obligation Payment Date and the period end date of each Reference Obligation Calculation Period, shall apply to any date referred to in these CDS on MBS Terms or in the Relevant Confirmation that falls on a day that is not a Business Day).
Reference Entity:	As shown in the relevant Confirmation.
Reference Obligation:	As shown in the relevant Confirmation. Section 2.30 of the Credit Derivatives Definitions shall not apply.
Reference Policy:	As shown in the relevant Confirmation.
Reference Price:	As shown in the relevant Confirmation.
Applicable Percentage:	On any day, a percentage equal to A divided by B. "A" means the product of the Initial Face Amount and the Initial Factor as decreased on each Delivery Date by an amount equal to (a) the outstanding principal balance of Deliverable Obligations Delivered to Seller (as adjusted by the Relevant Amount, if any) divided by the Current Factor on such day multiplied by (b) the Initial Factor. "B" means the product of the Original Principal Amount and the Initial Factor; (a) as increased by the outstanding principal

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balance of any further issues by the Reference Entity that are fungible with and form part of the same legal series as the Reference Obligation; and

(b) as decreased by any cancellations of some or all of the Outstanding Principal Amount resulting from purchases of the Reference Obligation by or on behalf of the Reference Entity.[3]

Initial Face Amount: As shown in the relevant Confirmation.

Reference Obligation Notional Amount: On the Effective Date, the product of:

(a) the Original Principal Amount;

(b) the Initial Factor; and

(c) the Applicable Percentage.

Following the Effective Date, the Reference Obligation Notional Amount will be:

(i) decreased on each day on which a Principal Payment is made by the relevant Principal Payment Amount;

(ii) decreased on the day, if any, on which a Failure to Pay Principal occurs by the relevant Principal Shortfall Amount;

(iii) decreased on each day on which a Writedown occurs by the relevant Writedown Amount;

(iv) increased on each day on which a Writedown Reimbursement occurs by any Writedown Reimbursement Amount in respect of a Writedown Reimbursement within paragraphs (ii) or (iii) of the definition of "Writedown Reimbursement"; and

(v) decreased on each Delivery Date by an amount equal to the relevant Exercise Amount minus the amount determined pursuant to paragraph (b) of "Physical Settlement Amount" below, provided that if any Relevant Amount is applicable, the Exercise Amount will also be deemed to be decreased by such Relevant Amount (or increased by the absolute value of such Relevant Amount if such Relevant Amount is negative) with effect from such

[3] This represents the percentage covered by the relevant Transaction of the Outstanding Principal Amount. It may be more than 100%.

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Delivery Date;

provided that if the Reference Obligation Notional Amount would be less than zero, it shall be deemed to be zero.

For the avoidance of doubt, the Reference Obligation Notional Amount shall not be increased by any deferral or capitalization of interest that relates to the Term of this Transaction or decreased by payment of any portion of the principal balance of the Reference Obligation that is attributable to the deferral or capitalization of interest during the Term of this Transaction.

Initial Payment: As shown in the relevant Confirmation.

2. Fixed Payments:

Fixed Rate Payer: Buyer

Fixed Rate: As shown in the relevant Confirmation, subject to adjustment in accordance with paragraph 6 below.

Fixed Rate Payer Period End Date: The first day of each Reference Obligation Calculation Period.

Fixed Rate Payer Payment Dates: In the relevant Confirmation, the parties shall specify either "Not CMBS Convention" or "CMBS Convention" as applicable.

If "Not CMBS Convention" is specified in the relevant Confirmation, the Fixed Rate Payer Payment Dates shall be each day falling five Business Days after a Reference Obligation Payment Date; provided that the final Fixed Rate Payer Payment Date shall fall on the fifth Business Day following the Effective Maturity Date.

If "CMBS Convention" is specified in the relevant Confirmation, the Fixed Rate Payer Payment Dates shall be, after each Reference Obligation Payment Date, the next following 25th calendar day of the month, except that when a Reference Obligation Payment Date falls on or after 25th calendar day of a month, the Fixed Rate Payer Payment Date in respect of such Reference Obligation Payment Date shall be 25th calendar day of the next following month; provided that the final Fixed Rate Payer Payment Date shall fall on the fifth Business Day following the Effective Maturity Date.

Fixed Amount: In the relevant Confirmation, the parties shall specify "Fixed Amount definition for underlying with no

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payment delay" or "Fixed Amount definition for underlying with payment delay".

If "Fixed Amount definition for underlying with no payment delay" is specified in the relevant Confirmation, the Fixed Amount shall be, with respect to any Fixed Rate Payer Payment Date, an amount equal to the product of:

(a) the Fixed Rate;

(b) an amount determined by the Calculation Agent equal to:

(i) the sum of the Reference Obligation Notional Amount as at 5:00 p.m. in the Calculation Agent City on each day in the related Fixed Rate Payer Calculation Period; divided by

(ii) the actual number of days in the related Fixed Rate Payer Calculation Period; and

(c) the actual number of days in the related Fixed Rate Payer Calculation Period divided by 360.

If "Fixed Amount definition for underlying with payment delay" is specified in the relevant Confirmation, then the Fixed Amount shall be with respect to any Fixed Rate Payer Payment Date, an amount equal to the product of:

(a) the Fixed Rate;

(b) the Reference Obligation Notional Amount outstanding on the last day of the Reference Obligation Calculation Period related to such Fixed Rate Payer Payment Date, as adjusted for any increases or decreases of the Reference Obligation Notional Amount on the Reference Obligation Payment Date immediately preceding the related Reference Obligation Payment Date; and

(c) the actual number of days in the related Fixed Rate Payer Calculation Period divided by 360.

Additional Fixed Amount Payment Dates:

(a) Each Fixed Rate Payer Payment Date; and

(b) in relation to each Additional Fixed Payment Event occurring after the second Business Day prior to the last Fixed Rate Payer Payment Date, the fifth Business Day after Buyer has received notification from Seller or the

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	Calculation Agent of the occurrence of such Additional Fixed Payment Event.
Additional Fixed Payments:	Following the occurrence of an Additional Fixed Payment Event in respect of the Reference Obligation, Buyer shall pay the relevant Additional Fixed Amount to Seller on the first Additional Fixed Amount Payment Date falling at least two Business Days (or in the case of an Additional Fixed Payment Event that occurs after the second Business Day prior to the last Fixed Rate Payer Payment Date, five Business Days) after the delivery of a notice by the Calculation Agent to the parties or by Seller to Buyer stating that the related Additional Fixed Amount is due and showing in reasonable detail how such Additional Fixed Amount was determined; provided that any such notice must be given on or prior to the fifth Business Day following the day that is one calendar year after the Effective Maturity Date.
Additional Fixed Payment Event:	The occurrence on or after the Effective Date and on or before the day that is one calendar year after the Effective Maturity Date of a Writedown Reimbursement, a Principal Shortfall Reimbursement or an Interest Shortfall Reimbursement.
Additional Fixed Amount:	With respect to each Additional Fixed Amount Payment Date, an amount equal to the sum of: (a) the Writedown Reimbursement Payment Amount (if any); (b) the Principal Shortfall Reimbursement Payment Amount (if any); and (c) the Interest Shortfall Reimbursement Payment Amount (if any). For the avoidance of doubt, each Writedown Reimbursement Payment Amount, Principal Shortfall Reimbursement Payment Amount or Interest Shortfall Reimbursement Payment Amount (as applicable) shall be calculated using the Applicable Percentage which takes into account the aggregate adjustment made to the Applicable Percentage in respect of all Delivery Dates that have occurred prior to the date of such calculation.
3. Floating Payments:	
Floating Rate Payer:	Seller
Floating Rate Payer Payment	In relation to a Floating Amount Event, the first Fixed Rate Payer Payment Date falling at least two Business

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Dates:	Days (or in the case of a Floating Amount Event that occurs on the Legal Final Maturity Date or the Final Amortization Date, the fifth Business Day) after delivery of a notice by the Calculation Agent to the parties or a notice by Buyer to Seller that the related Floating Amount is due and showing in reasonable detail how such Floating Amount was determined; provided that any such notice must be given on or prior to the fifth Business Day following the Effective Maturity Date.
Floating Payments:	If a Floating Amount Event occurs, then on the relevant Floating Rate Payer Payment Date, Seller will pay the relevant Floating Amount to Buyer. For the avoidance of doubt, the Conditions to Settlement are not required to be satisfied in respect of a Floating Payment.
Floating Amount Event:	A Writedown, a Failure to Pay Principal or an Interest Shortfall.
Floating Amount:	With respect to each Floating Rate Payer Payment Date, an amount equal to the sum of: (a) the relevant Writedown Amount (if any); (b) the relevant Principal Shortfall Amount (if any); and (c) the relevant Interest Shortfall Payment Amount (if any). For the avoidance of doubt, each Writedown Amount, Principal Shortfall Amount or Interest Shortfall Payment Amount (as applicable) shall be calculated using the Applicable Percentage which takes into account the aggregate adjustment made to the Applicable Percentage in respect of all Delivery Dates that have occurred prior to the date of such calculation.

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4. Credit Events and Physical Settlement

Conditions to Settlement: Credit Event Notice

Notifying Party: Buyer

Notice of Physical Settlement

Notice of Publicly Available Information: Applicable

Public Sources: The public sources listed in Section 3.7 of the Credit Derivatives Definitions; provided that Servicer Reports in respect of the Reference Obligation and, in respect of a Distressed Ratings Downgrade Credit Event only, any public communications by any of the Rating Agencies in respect of the Reference Obligation shall also be deemed Public Sources.

Specified Number: 1

provided that if the Calculation Agent has previously delivered a notice to the parties or Buyer has previously delivered a notice to Seller pursuant to the definition of "Floating Rate Payer Payment Dates" above in respect of a Writedown or a Failure to Pay Principal, the only Condition to Settlement with respect to any Credit Event shall be a Notice of Physical Settlement.

The parties agree that with respect to the Transaction and notwithstanding anything to the contrary in the Credit Derivatives Definitions:

(a) the Conditions to Settlement may be satisfied on more than one occasion;

(b) multiple Physical Settlement Amounts may be payable by Seller;

(c) Buyer, when providing a Notice of Physical Settlement, must specify an Exercise Amount and an Exercise Percentage;

(d) if Buyer has delivered a Notice of Physical Settlement that specifies an Exercise Amount that is less than the Reference Obligation Notional Amount as of the date on which such Notice of Physical Settlement is delivered (calculated as though Physical Settlement in

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respect of all previously delivered Notices of Physical Settlement has occurred in full), the rights and obligations of the parties under the Transaction shall continue and Buyer may deliver additional Notices of Physical Settlement with respect to the initial Credit Event or with respect to any additional Credit Event at any time thereafter; and

(e) any Notice of Physical Settlement shall be delivered no later than 30 calendar days after the fifth Business Day following the earlier of the Effective Maturity Date and the Optional Step-up Early Termination Date.

Section 3.2(d) of the Credit Derivatives Definitions is amended to delete the words "that is effective no later than thirty calendar days after the Event Determination Date".

Section 3.3 of the Credit Derivatives Definitions is amended so that the following is added as sub-clause (d):

"(d) the expiration of any applicable grace period for a Failure to Pay Principal Credit Event".

Credit Events: The following Credit Events shall apply to the Transaction (and the first sentence of Section 4.1 of the Credit Derivatives Definitions shall be amended accordingly):

Failure to Pay Principal

Writedown

Additional Credit Event (as shown in the relevant Confirmation).

Obligation: Reference Obligation Only

5. Interest Shortfall

Interest Shortfall Payment Amount: In respect of an Interest Shortfall, the relevant Interest Shortfall Amount; provided that, if Interest Shortfall Cap is specified as applicable in the relevant Confirmation and the Interest Shortfall Amount exceeds the Interest Shortfall Cap Amount, the Interest Shortfall Payment Amount in respect of such Interest Shortfall shall be the Interest Shortfall Cap Amount.

Interest Shortfall Cap: As shown in the relevant Confirmation.

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Interest Shortfall Cap Amount:	As set out in the Interest Shortfall Cap Annex.
Actual Interest Amount:	With respect to any Reference Obligation Payment Date, payment by or on behalf of the Issuer of an amount in respect of interest due under the Reference Obligation (including, without limitation, any deferred interest or default 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 that relates to the Term of the Transaction) to the holder(s) of the Reference Obligation in respect of the Reference Obligation.
WAC Cap Interest Provision:	As shown in the relevant Confirmation. For this purpose, "WAC Cap" means a weighted average coupon or weighted average rate cap provision (however defined in the Underlying Instruments) of the Underlying Instruments that limits, increases or decreases the interest rate or interest entitlement in circumstances where the Underlying Instruments as at the Trade Date and without regard to any subsequent amendments, do not provide for any interest shortfall arising as a result of such provision to be deferred, capitalized or otherwise compensated for at any future time.
Expected Interest Amount:	With respect to any Reference Obligation Payment Date, the amount of current interest that would accrue during the related Reference Obligation Calculation Period calculated using the Reference Obligation Coupon on a principal balance of the Reference Obligation equal to: (a) the Outstanding Principal Amount taking into account any reductions due to a principal deficiency balance or realized loss amount (however described in the Underlying Instruments) that are attributable to the Reference Obligation minus (b) the Aggregate Implied Writedown Amount (if any) and that will be payable on the related Reference Obligation Payment Date assuming for this purpose that sufficient funds are available therefor in accordance with the Underlying Instruments. Except as provided in (a) in the previous sentence, the Expected Interest Amount shall be determined without regard to (i) unpaid amounts in respect of accrued interest on prior Reference Obligation Payment Dates, or (ii) any prepayment penalties or yield maintenance provisions. The Expected Interest Amount shall be determined: (x) if WAC Cap Interest Provision is specified as applicable in the relevant Confirmation, after giving

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effect to any WAC Cap; and

(y) if WAC Cap Interest Provision is specified as not applicable in the relevant Confirmation, without giving effect to any WAC Cap; and

in either case without regard to the effect of any provisions (however described) of such Underlying Instruments that otherwise permit the limitation of due payments to distributions of funds available from proceeds of the Underlying Assets, or that provide for the capitalization or deferral of interest on the Reference Obligation during the Term of the Transaction, or that provide for the extinguishing or reduction of such payments or distributions (each a "Limitation Provision") (but, for the avoidance of doubt, taking account of any Writedown within paragraph (i) of the definition of "Writedown" occurring in accordance with the Underlying Instruments)[4].

For the purposes of calculating the Expected Interest Amount, and notwithstanding any other provision herein, the Reference Obligation Coupon shall be deemed to include any cap stated in the Underlying Instrument that is not a Limitation Provision and, where WAC Cap Interest Provision is specified as not applicable in the relevant Confirmation, is not a WAC Cap.

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

For the avoidance of doubt, the occurrence of an event within (a) or (b) shall be determined taking into account any payment made under the Reference Policy, if applicable.

Interest Shortfall Amount: With respect to any Reference Obligation Payment Date, an amount equal to the greater of:

(a) zero; and

(b) the amount equal to the product of:

(i) (A) the Expected Interest Amount;

minus

(B) the Actual Interest Amount; and

(ii) the Applicable Percentage;

provided that, with respect to the first Reference Obligation Payment Date only, the Interest Shortfall Amount shall be

[4] Note that this will not impact the determination of "Expected Interest Amount" in respect of a Reference Obligation that does not have a Limitation Provision.

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	the amount determined in accordance with (a) and (b) above multiplied by a fraction equal to: (x) the number of days in the first Fixed Rate Payer Calculation Period; over (y) the number of days in the first Reference Obligation Calculation Period.
Interest Shortfall Reimbursement:	With respect to any Reference Obligation Payment Date, the payment by or on behalf of the Issuer of an Actual Interest Amount in respect of the Reference Obligation that is greater than the Expected Interest Amount.
Interest Shortfall Reimbursement Amount:	With respect to any Reference Obligation Payment Date, the product of (a) the amount of any Interest Shortfall Reimbursement on such day and (b) the Applicable Percentage.
Interest Shortfall Reimbursement Payment Amount:	If Interest Shortfall Cap is specified as not applicable in the relevant Confirmation, the relevant Interest Shortfall Reimbursement Amount. If Interest Shortfall Cap is specified as applicable in the relevant Confirmation, the amount determined pursuant to the Interest Shortfall Cap Annex.

6. Consequences of Step-up of the Reference Obligation Coupon

Step-up provisions:	As shown in the relevant Confirmation. If the Step-up provisions are applicable, then the following provisions of this paragraph 6 shall apply.
Step-up:	On any day, an increase in the Reference Obligation Coupon due to the failure of the Issuer or a third party to exercise, in accordance with the Underlying Instruments, a "clean-up call" or other right to purchase, redeem, cancel or terminate (however described in the Underlying Instruments) the Reference Obligation.
Non-Call Notification Date:	The date of delivery by the Calculation Agent to the parties or by Buyer to Seller of a Non-Call Notice.
Non-Call Notice:	A notice given by the Calculation Agent to the parties or by Buyer to Seller that the Reference Obligation has not been purchased, redeemed, cancelled or terminated by the Issuer or a third party, in accordance with the Underlying Instruments, pursuant to a "clean-up call" or other right to purchase, redeem, cancel or terminate (however described in the Underlying Instruments) the Reference Obligation, which failure will result in the occurrence of a Step-up.
Increase of the Fixed Rate:	Subject to "Optional Step-up Early Termination" below, upon the occurrence of a Step-up, the Fixed Rate will be

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	increased by the number of basis points by which the Reference Obligation Coupon is increased due to the Step-up, such increase to take effect as of the Fixed Rate Payer Payment Date immediately following the fifth Business Day after the Non-Call Notification Date.
Optional Step-up Early Termination:	No later than five Business Days after the Non-Call Notification Date, Buyer shall notify Seller (such notification, a "Buyer Step-up Notice") whether Buyer wishes to continue the Transaction at the increased Fixed Rate or to terminate the Transaction. If Buyer elects to terminate the Transaction, the date of delivery of the Buyer Step-up Notice shall be the Scheduled Termination Date (such date, the "Optional Step-up Early Termination Date") and in such case "Increase of the Fixed Rate" in this paragraph 6 shall not apply. No amount shall be payable by either party in respect of the Optional Step-up Early Termination Date other than any Fixed Amount, Additional Fixed Amount, Floating Amount or Physical Settlement Amount calculated in accordance with the terms hereof. For the avoidance of doubt, the obligation of a party to pay any amount that has become due and payable under the Transaction and remains unpaid as at the Optional Step-up Early Termination Date shall not be affected by the occurrence of the Optional Step-up Early Termination Date. If Buyer fails to deliver the Buyer Step-up Notice by the fifth Business Day after the Non-Call Notification Date, Buyer shall be deemed to have elected to continue the Transaction at the increased Fixed Rate as described under "Increase of the Fixed Rate". If Buyer elects, or is deemed to have elected, to continue the Transaction at the increased Fixed Rate, the Transaction shall continue.

7. Settlement Terms

Settlement Method:	Physical Settlement
Terms Relating to Physical Settlement:	
Physical Settlement Period:	Five Business Days
Deliverable Obligations:	Exclude Accrued Interest
Deliverable Obligations:	Deliverable Obligation Category: Reference Obligation Only
Physical Settlement Amount:	An amount equal to:

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

(b) the sum of:

(i) if the Aggregate Implied Writedown Amount is greater than zero, the product of (A) the Aggregate Implied Writedown Amount, (B) the Applicable Percentage, each as determined immediately prior to the relevant Delivery and (C) the relevant Exercise Percentage; and

(ii) the product of (A) the aggregate of all Writedown Amounts in respect of Writedowns within paragraph (i)(B) of the definition of "Writedown" minus the aggregate of all Writedown Reimbursement Amounts in respect of Writedown Reimbursements within paragraph (ii)(B) of the definition of "Writedown Reimbursement" and (B) the relevant Exercise Percentage;

provided that if the Physical Settlement Amount would exceed the product of:

(1) the Reference Obligation Notional Amount as of the date on which the relevant Notice of Physical Settlement is delivered calculated as though Physical Settlement in respect of all previously delivered Notices of Physical Settlement has occurred in full; and

(2) the Exercise Percentage;

then the Physical Settlement Amount shall be deemed to be equal to such product.

Delayed Payment: With respect to a Delivery Date, if a Servicer Report that describes a Delayed Payment is delivered to holders of the Reference Obligation or to the Calculation Agent on or after such Delivery Date, Buyer will pay the applicable Delayed Payment Amount to Seller no later than five Business Days following the later of (a) the day on which such Servicer Report is delivered and (b) the day on which such Delayed Payment is due and payable.

Escrow: Applicable

Non-delivery by Buyer or occurrence of the Effective Maturity Date: If Buyer has delivered a Notice of Physical Settlement and:

(a) Buyer does not Deliver in full the Deliverable Obligations specified in that Notice of Physical Settlement on or prior to the Physical Settlement

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Date; or

(b) the Effective Maturity Date occurs after delivery of the Notice of Physical Settlement but before Buyer Delivers the Deliverable Obligations specified in that Notice of Physical Settlement;

then such Notice of Physical Settlement shall be deemed not to have been delivered and any reference in these CDS on MBS Terms to a previously delivered Notice of Physical Settlement shall exclude any Notice of Physical Settlement that is deemed not to have been delivered. Sections 9.2(c)(ii) (except for the first sentence thereof), 9.3, 9.4, 9.5, 9.6, 9.9 and 9.10 of the Credit Derivatives Definitions shall not apply.

8. Additional Provisions:

(a) *Delivery of Servicer Report*

If either party makes a request in writing, the Calculation Agent agrees to provide such party with a copy of the most recent Servicer Report promptly following receipt of such request, if and to the extent such Servicer Report is reasonably available to the Calculation Agent (whether or not the Calculation Agent is a holder of the Reference Obligation). In addition, if a Floating Payment or an Additional Fixed Payment is due hereunder, then the Calculation Agent or the party that notifies the other party that the relevant Floating Payment or Additional Fixed Payment is due, as applicable, (the "Notifying Party") shall deliver a copy of any Servicer Report relevant to such payment that is requested by the party that is not the Notifying Party or by either party where the Notifying Party is the Calculation Agent, if and to the extent that such Servicer Report is reasonably available to the Notifying Party (whether or not the Notifying Party is a holder of the Reference Obligation).

(b) *Calculation Agent and Buyer and Seller Determinations*

The Calculation Agent shall be responsible for determining and calculating (i) the Fixed Amount payable on each Fixed Rate Payer Payment Date; (ii) the occurrence of a Floating Amount Event and the related Floating Amount and (iii) the occurrence of an Additional Fixed Payment Event and the related Additional Fixed Amount; provided that notwithstanding the above, each of Buyer and Seller shall be entitled to determine and calculate the above amounts to the extent that Buyer or Seller, as applicable, has the right to deliver a notice to the other party demanding payment of such amount. The Calculation Agent or Buyer or Seller, as applicable, shall make such determinations and calculations based solely on the basis of the Servicer Reports, to the extent such Servicer Reports are reasonably available to the Calculation Agent or such party. The Calculation Agent or Buyer or Seller, as applicable, shall, as soon as practicable after making any of the determinations or calculations specified in (i) and (ii) above, notify the parties or the other party, as applicable, of such determinations and calculations. For the avoidance of doubt, if an Interest Shortfall Amount is not explicitly set out in the Servicer Report but the Calculation Agent determines that an Interest Shortfall has occurred on the basis of information in such Servicer Report,

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then the relevant Interest Shortfall Amount shall be calculated by the Calculation Agent on the basis of such information.[5]

(c) *Adjustment of Calculation Agent Determinations*

To the extent that a Servicer furnishes any Servicer Reports correcting information contained in previously issued Servicer Reports, and such corrections impact calculations pursuant to the Transaction, the calculations relevant to the Transaction shall be adjusted retroactively by the Calculation Agent to reflect the corrected information (provided that, for the avoidance of doubt, no amounts in respect of interest shall be payable by either party and provided that the Calculation Agent in performing the calculations pursuant to this paragraph will assume that no interest has accrued on any adjusted amount), and the Calculation Agent shall promptly notify both parties of any corrected payments required by either party. Any required corrected payments shall be made within five Business Days of the day on which such notification by the Calculation Agent is effective.

9. Additional Definitions and Amendments to the Credit Derivatives Definitions

(a) References in Sections 4.1, 8.2, 9.1 and 9.2(a) of the Credit Derivatives Definitions as well as Section 3(a)(iv) of the form of Novation Agreement set forth in Exhibit E to the Credit Derivatives Definitions to the Reference Entity shall be deemed to be references to both the Reference Entity and the Insurer in respect of the Reference Policy, if applicable.

(b) (i) The definition of "Publicly Available Information" in Section 3.5 of the Credit Derivatives Definitions shall be amended by (i) inserting the words "the Insurer in respect of the Reference Policy, if applicable" at the end of subparagraph (a)(ii)(A) thereof, (ii) inserting the words ", servicer, sub-servicer, master servicer" before the words "or paying agent" in subparagraph (a)(ii)(B) thereof and (iii) deleting the word "or" at the end of subparagraph (a)(iii) thereof and inserting at the end of subparagraph (a)(iv) thereof the following: "or (v) is information contained in a notice or on a website published by an internationally recognized rating agency that has at any time rated the Reference Obligation".

(ii) The definition of "Physical Settlement" in Section 8.1 of the Credit Derivatives Definitions shall be amended by (i) deleting the words "Physical Settlement Amount" from the last line of the second paragraph thereof and (ii) inserting in lieu thereof the words "Exercise Amount".

(iii) The definition of "Physical Settlement Date" in Section 8.4 of the Credit Derivatives Definitions shall be amended by deleting the last sentence thereof.

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[5] This is intended to cover any situation in which the Servicer Report does not report on Interest Shortfalls.

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(c) For the purposes of the Transaction only, the following terms have the meanings given below:

"Actual Principal Amount" means, with respect to the Final Amortization Date or the Legal Final Maturity Date, an amount paid on such day by or on behalf of the Issuer in respect of principal (excluding any amount representing capitalized interest that relates to the Term of the Transaction) to the holder(s) of the Reference Obligation in respect of the Reference Obligation.

"Aggregate Implied Writedown Amount" means the greater of (i) zero and (ii) the aggregate of all Implied Writedown Amounts minus the aggregate of all Implied Writedown Reimbursement Amounts.

"Current Factor" means the factor of the Reference Obligation as specified in the most recent Servicer Report; provided that if the factor is not specified in the most recent Servicer Report or the factor specified includes deferred or capitalized interest that relates to the Term of the Transaction, then the Current Factor shall be the ratio equal to (i) the Outstanding Principal Amount as of such date, determined in accordance with the most recent Servicer Report over (ii) the Original Principal Amount.

"Current Period Implied Writedown Amount" means, in respect of a Reference Obligation Calculation Period, an amount determined as of the last day of such Reference Obligation Calculation Period equal to the greater of:

(i) zero; and

(ii) the product of:

(A) the Implied Writedown Percentage; and

(B) the greater of:

(1) zero; and

(2) the lesser of (x) the Pari Passu Amount and (y) the Pari Passu Amount plus the Senior Amount minus the aggregate outstanding asset pool balance securing the payment obligations on the Reference Obligation (all such outstanding asset pool balances as obtained by the Calculation Agent from the most recently dated Servicer Report available as of such day), calculated based on the face amount of the assets then in such pool, whether or not any such asset is performing.

"Delayed Payment" means, with respect to a Delivery Date, a Principal Payment, Principal Shortfall Reimbursement or a Writedown Reimbursement within paragraph (i) of the definition of "Writedown Reimbursement" that is described in a Servicer Report delivered to holders of the Reference Obligation or to the Calculation Agent on or after such Delivery Date.

"Delayed Payment Amount" means, if persons who are holders of the Reference Obligation as of a date prior to a Delivery Date are paid a Delayed Payment on or after such Delivery Date, an amount equal to the product of (i) the sum of all such Delayed Payments, (ii) the Reference Price, (iii) the Applicable Percentage immediately prior to such Delivery Date and (iv) the Exercise Percentage.

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"Distressed Ratings Downgrade" means that the Reference Obligation:

(i) if publicly rated by Moody's, (A) is downgraded to "Caa2" or below by Moody's or (B) has the rating assigned to it by Moody's withdrawn and, in either case, not reinstated within five Business Days of such downgrade or withdrawal; provided that if such Reference Obligation was assigned a public rating of "Baa3" or higher by Moody's immediately prior to the occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "Caa1" by Moody's within three calendar months 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 shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "CCC+" by Standard & Poor's within three calendar months 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 shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "CCC+" by Fitch within three calendar months after such withdrawal.

"Effective Maturity Date" means the earlier of (a) the Scheduled Termination Date and (b) the Final Amortization Date.

"Exercise Amount" means, for purposes of the Transaction, an amount to which a Notice of Physical Settlement relates equal to the product of (i) the original face amount of the Reference Obligation to be Delivered by Buyer to Seller on the applicable Physical Settlement Date; and (ii) the Current Factor as of such date. The Exercise Amount to which a Notice of Physical Settlement relates shall (A) be equal to or less than the Reference Obligation Notional Amount (determined, for this purpose, without regard to the effect of any Writedown or Writedown Reimbursement within paragraphs (i)(B) or (iii) of "Writedown" or paragraphs (ii)(B) or (iii) of "Writedown Reimbursement", respectively) as of the date on which the relevant Notice of Physical Settlement is delivered calculated as though the Physical Settlement of all previously delivered Notices of Physical Settlement has occurred in full and (B) not be less than the lesser of (1) the Reference Obligation Notional Amount as of the date on which the relevant Notice of Physical Settlement is delivered calculated as though Physical Settlement in respect of all previously delivered Notices of Physical Settlement has occurred in full and (2) USD100,000. The cumulative original face amount of Deliverable Obligations specified in all Notices of Physical Settlement shall not at any time exceed the Initial Face Amount. For the avoidance of doubt: (a) if any capitalization or deferral of interest in respect of the Reference Obligation has occurred during the Term of the Transaction and has not been recovered by holders of the Reference Obligation pursuant to the terms of the Underlying Instruments, then, for the purpose of determining the amount of Deliverable Obligations to be Delivered, the Exercise Amount (determined above by reference to the original face amount) will represent an outstanding principal balance of the Reference Obligation to be Delivered by Buyer that includes the proportion of unrecovered interest attributable to the Reference Obligation to be Delivered and (b) notwithstanding the

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foregoing, the Physical Settlement Amount payable by Seller in relation to such Exercise Amount shall not include any amount in respect of such unrecovered interest.

"Exercise Percentage" means, with respect to a Notice of Physical Settlement, a percentage equal to the original face amount of the Deliverable Obligations specified in such Notice of Physical Settlement divided by an amount equal to (i) the Initial Face Amount minus (ii) the aggregate of the original face amount of all Deliverable Obligations specified in all previously delivered Notices of Physical Settlement.

"Expected Principal Amount" means, with respect to the Final Amortization Date or the Legal Final Maturity Date, an amount equal to (i) the Outstanding Principal Amount of the Reference Obligation payable on such day (excluding any amount representing capitalized interest that relates to the Term of the Transaction) assuming for this purpose that sufficient funds are available for such payment, where such amount shall be determined in accordance with the Underlying Instruments, minus (ii) the sum of (A) the Aggregate Implied Writedown Amount (if any) and (B) the net aggregate principal deficiency balance or realized loss amounts (however described in the Underlying Instruments) that are attributable to the Reference Obligation. The Expected Principal Amount shall be determined without regard to the effect of any provisions (however described) of the Underlying Instruments that permit the limitation of due payments or distributions of funds in accordance with the terms of such Reference Obligation or that provide for the extinguishing or reduction of such payments or distributions.

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

"Final Amortization Date" means the first to occur of (i) the date on which the Reference Obligation Notional Amount is reduced to zero and (ii) the date on which the assets securing the Reference Obligation or designated to fund amounts due in respect of the Reference Obligation are liquidated, distributed or otherwise disposed of in full and the proceeds thereof are distributed or otherwise disposed of in full.

"Fitch" means Fitch Ratings or any successor to its rating business.

"Implied Writedown Amount" means, (i) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) of the definition of "Writedown" to occur in respect of the Reference Obligation, on any Reference Obligation Payment Date, an amount determined by the Calculation Agent equal to the excess, if any, of the Current Period Implied Writedown Amount over the Previous Period Implied Writedown Amount, in each case in respect of the Reference Obligation Calculation Period to which such Reference Obligation Payment Date relates, and (ii) in any other case, zero.

"Implied Writedown Percentage" means (i) the Outstanding Principal Amount divided by (ii) the Pari Passu Amount.

"Implied Writedown Reimbursement Amount" means, (i) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as

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described in (i) of the definition of "Writedown" to occur in respect of the Reference Obligation, on any Reference Obligation Payment Date, an amount determined by the Calculation Agent equal to the excess, if any, of the Previous Period Implied Writedown Amount over the Current Period Implied Writedown Amount, in each case in respect of the Reference Obligation Calculation Period to which such Reference Obligation Payment Date relates, and (ii) in any other case, zero, provided that the aggregate of all Implied Writedown Reimbursement Amounts at any time shall not exceed the Outstanding Principal Amount.

"Legal Final Maturity Date" means the date set out in paragraph 1 above (subject, for the avoidance of doubt, to any business day convention applicable to the legal final maturity date of the Reference Obligation), provided that if the legal final maturity date of the Reference Obligation is amended, the Legal Final Maturity Date shall be such date as amended.

"Moody's" means Moody's Investors Service, Inc. or any successor to its rating business.

"Outstanding Principal Amount" means, as of any date of determination with respect to the Reference Obligation, the outstanding principal balance of the Reference Obligation as of such date, which shall take into account:

(i) all payments of principal;

(ii) all writedowns or applied losses (however described in the Underlying Instruments) resulting in a reduction in the outstanding principal balance of the Reference Obligation (other than as a result of a scheduled or unscheduled payment of principal);

(iii) forgiveness of any amount by the holders of the Reference Obligation pursuant to an amendment to the Underlying Instruments resulting in a reduction in the outstanding principal balance of the Reference Obligation;

(iv) any payments reducing the amount of any reductions described in (ii) and (iii) of this definition; and

(v) any increase in the outstanding principal balance of the Reference Obligation that reflects a reversal of any prior reductions described in (ii) and (iii) of this definition; and

(vi) any increase in the outstanding principal balance of the Reference Obligation that is attributable to the deferral or capitalization of interest prior to the Effective Date.

For the avoidance of doubt, the Outstanding Principal Amount shall not include any portion of the outstanding principal balance of the Reference Obligation that is attributable to the deferral or capitalization of interest during the Term of this Transaction.

"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.

"Previous Period Implied Writedown Amount" means, in respect of a Reference Obligation Calculation Period, the Current Period Implied Writedown Amount as determined in relation to the last day of the immediately preceding Reference Obligation Calculation Period.

"Principal Payment" means, with respect to any Reference Obligation Payment Date, the occurrence of a payment of an amount to the holders of the Reference Obligation in respect of

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principal (scheduled or unscheduled) in respect of the Reference Obligation other than a payment in respect of principal representing capitalized interest that relates to the Term of the Transaction, excluding, for the avoidance of doubt, any Writedown Reimbursement or Interest Shortfall Reimbursement.

"Principal Payment Amount" means, with respect to any Reference Obligation Payment Date, an amount equal to the product of (i) the amount of any Principal Payment on such date and (ii) the Applicable Percentage.

"Principal Shortfall Amount" means, in respect of a Failure to Pay Principal, an amount equal to the greater of:

(i) zero; and

(ii) the amount equal to the product of:

(A) the Expected Principal Amount minus the Actual Principal Amount;

(B) the Applicable Percentage; and

(C) the Reference Price.

If the Principal Shortfall Amount would be greater than the Reference Obligation Notional Amount immediately prior to the occurrence of such Failure to Pay Principal, then the Principal Shortfall Amount shall be deemed to be equal to the Reference Obligation Notional Amount at such time.

"Principal Shortfall Reimbursement" means, with respect to any day, the payment by or on behalf of the Issuer of an amount in respect of the Reference Obligation in or toward the satisfaction of any deferral of or failure to pay principal arising from one or more prior occurrences of a Failure to Pay Principal.

"Principal Shortfall Reimbursement Amount" means, with respect to any day, the product of (i) the amount of any Principal Shortfall Reimbursement on such day, (ii) the Applicable Percentage and (iii) the Reference Price.

"Principal Shortfall Reimbursement Payment Amount" means, with respect to an Additional Fixed Amount Payment Date, the sum of the Principal Shortfall Reimbursement Amounts in respect of all Principal Shortfall Reimbursements (if any) made during the Reference Obligation Calculation Period relating to such Additional Fixed Amount Payment Date, provided that the aggregate of all Principal Shortfall Reimbursement Payment Amounts at any time shall not exceed the aggregate of all Floating Amounts paid by Seller in respect of occurrences of Failure to Pay Principal prior to such Additional Fixed Amount Payment Date.

"Rating Agencies" means Fitch, Moody's and Standard & Poor's.

"Reference Obligation Calculation Period" means, with respect to each Reference Obligation Payment Date, a period corresponding to the interest accrual period relating to such Reference Obligation Payment Date pursuant to the Underlying Instruments.

"Reference Obligation Coupon" means the periodic interest rate applied in relation to each Reference Obligation Calculation Period on the related Reference Obligation Payment Date, as determined in accordance with the terms of the Underlying Instruments as at the Effective Date, without regard to any subsequent amendment.

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"Reference Obligation Payment Date" means (i) each scheduled distribution date for the Reference Obligation occurring on or after the Effective Date and on or prior to the Scheduled Termination Date, determined in accordance with the Underlying Instruments and (ii) any day after the Effective Maturity Date on which a payment is made in respect of the Reference Obligation.

"Relevant Amount" means, if a Servicer Report that describes a Principal Payment, Writedown or Writedown Reimbursement (other than a Writedown Reimbursement within paragraph (i) of "Writedown Reimbursement"), in each case that has the effect of decreasing or increasing the interest-accruing principal balance of the Reference Obligation as of a date prior to a Delivery Date but such Servicer Report is delivered to holders of the Reference Obligation or to the Calculation Agent on or after such Delivery Date, an amount equal to the product of (i) the sum of any such Principal Payment (expressed as a positive amount), Writedown (expressed as a positive amount) or Writedown Reimbursement (expressed as a negative amount), as applicable; (ii) the Reference Price; (iii) the Applicable Percentage immediately prior to such Delivery Date; and (iv) the Exercise Percentage.

"Senior Amount" means, as of any day, the aggregate outstanding principal balance of all obligations of the Reference Entity secured by the Underlying Assets and ranking senior in priority to the Reference Obligation.

"Servicer" means any trustee, servicer, sub-servicer, master servicer, fiscal agent, paying agent or other similar entity responsible for calculating payment amounts or providing reports pursuant to the Underlying Instruments.

"Servicer Reports" means periodic statements or reports regarding the Reference Obligation provided by the Servicer to holders of the Reference Obligation.

"Standard & Poor's" means Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. or any successor to its rating business.

"Underlying Assets" means the assets securing the Reference Obligation for the benefit of the holders of the Reference Obligation and which are expected to generate the cashflows required for the servicing and repayment (in whole or in part) of the Reference Obligation, or the assets to which a holder of such Reference Obligation is economically exposed where such exposure is created synthetically.

"Underlying Instruments" means the indenture, trust agreement, pooling and servicing agreement or other relevant agreement(s) setting forth the terms of the Reference Obligation.

"Writedown" means the occurrence at any time on or after the Effective Date of:

(i) (A) a writedown or applied loss (however described in the Underlying Instruments) resulting in a reduction in the Outstanding Principal Amount (other than as a result of a scheduled or unscheduled payment of principal); or

(B) the attribution of a principal deficiency or realized loss (however described in the Underlying Instruments) to the Reference Obligation resulting in a reduction 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; or

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(iii) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) above to occur in respect of the Reference Obligation, an Implied Writedown Amount being determined in respect of the Reference Obligation by the Calculation Agent.

"Writedown Amount" means, with respect to any day, the product of (i) the amount of any Writedown on such day, (ii) the Applicable Percentage and (iii) the Reference Price.

"Writedown Reimbursement" means, with respect to any day, the occurrence of:

(i) a payment by or on behalf of the Issuer of an amount in respect of the Reference Obligation in reduction of any prior Writedowns;

(ii) (A) an increase by or on behalf of the Issuer of the Outstanding Principal Amount of the Reference Obligation to reflect the reversal of any prior Writedowns; or

(B) a decrease in the principal deficiency balance or realized loss amounts (however described in the Underlying Instruments) attributable to the Reference Obligation; or

(iii) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (ii) above to occur in respect of the Reference Obligation, an Implied Writedown Reimbursement Amount being determined in respect of the Reference Obligation by the Calculation Agent.

"Writedown Reimbursement Amount" means, with respect to any day, an amount equal to the product of:

(i) the sum of all Writedown Reimbursements on that day;

(ii) the Applicable Percentage; and

(iii) the Reference Price.

"Writedown Reimbursement Payment Amount" means, with respect to an Additional Fixed Amount Payment Date, the sum of the Writedown Reimbursement Amounts in respect of all Writedown Reimbursements (if any) made during the Reference Obligation Calculation Period relating to such Additional Fixed Amount Payment Date, provided that the aggregate of all Writedown Reimbursement Payment Amounts at any time shall not exceed the aggregate of all Floating Amounts paid by Seller in respect of Writedowns occurring prior to such Additional Fixed Amount Payment Date.

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Interest Shortfall Cap Annex

If Interest Shortfall Cap is specified as applicable in the relevant Confirmation, then the following provisions will apply:

Interest Shortfall Cap Basis:	As shown in the relevant Confirmation.
Interest Shortfall Cap Amount:	If the Interest Shortfall Cap Basis is Fixed Cap, the Interest Shortfall Cap Amount in respect of an Interest Shortfall shall be the Fixed Amount calculated in respect of the Fixed Rate Payer Payment Date immediately following the Reference Obligation Payment Date on which the relevant Interest Shortfall occurred. If the Interest Shortfall Cap Basis is Variable Cap, the Interest Shortfall Cap Amount applicable in respect of a Floating Rate Payer Payment Date shall be an amount equal to the product of: (a) the sum of the Relevant Rate and the Fixed Rate applicable to the Fixed Rate Payer Calculation Period immediately preceding the Reference Obligation Payment Date on which the relevant Interest Shortfall occurs; (b) the amount determined by the Calculation Agent under sub-clause (b) of the definition of "Fixed Amount" in relation to the relevant Fixed Rate Payer Payment Date; and (c) the actual number of days in such Fixed Rate Payer Calculation Period divided by 360.
Interest Shortfall Compounding:	As shown in the relevant Confirmation.
Interest Shortfall Reimbursement Payment Amount:	If Interest Shortfall Cap is specified as applicable in the relevant Confirmation, then with respect to the first Additional Fixed Amount Payment Date, zero, and with respect to any subsequent Additional Fixed Amount Payment Date and calculated as of the Reference Obligation Payment Date immediately preceding such Additional Fixed Amount Payment Date, as specified by the Calculation Agent in its notice to the parties or by Seller in its notice to Buyer of the existence of an Interest Shortfall Reimbursement, an amount equal to the greater of: (a) zero; and (b) the amount equal to: (i) the product of: (A) the Cumulative Interest Shortfall Payment Amount as of the

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Additional Fixed Amount Payment Date immediately preceding such Reference Obligation Payment Date; and

(B) either:

(1) if Interest Shortfall Compounding is specified as applicable in the relevant Confirmation, the relevant Cumulative Interest Shortfall Payment Compounding Factor for the Fixed Rate Payer Calculation Period immediately preceding such Additional Fixed Amount Payment Date (or 1.0 in respect of any Additional Fixed Amount Payment Date occurring after the final Fixed Rate Payer Payment Date); or

(2) if Interest Shortfall Compounding is specified as not applicable in the relevant Confirmation, 1;

minus

(ii) the Cumulative Interest Shortfall Amount as of such Reference Obligation Payment Date;

provided that if the Interest Shortfall Reimbursement Payment Amount on an Additional Fixed Amount Payment Date would exceed the Interest Shortfall Reimbursement Amount in respect of the related Reference Obligation Payment Date, then such Interest Shortfall Reimbursement Payment Amount shall be deemed to be equal to such Interest Shortfall Reimbursement Amount.

Cumulative Interest Shortfall Amount: With respect to any Reference Obligation Payment Date, an amount equal to the greater of:

(a) zero; and

(b) an amount equal to:

(i) the Cumulative Interest Shortfall Amount as of the Reference Obligation Payment Date immediately preceding such Reference Obligation Payment Date or, in the case of

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the first Reference Obligation Payment Date, zero; plus

(ii) the Interest Shortfall Amount (if any) in respect of such Reference Obligation Payment Date; plus

(iii) either:

(A) if Interest Shortfall Compounding is specified as applicable in the relevant Confirmation, an amount determined by the Calculation Agent as the amount of interest that would accrue on the Cumulative Interest Shortfall Amount immediately preceding such Reference Obligation Payment Date during the related Reference Obligation Calculation Period pursuant to the Underlying Instruments or, in the case of the first Reference Obligation Payment Date, zero; or

(B) if Interest Shortfall Compounding is specified as not applicable in the relevant Confirmation, 0; minus

(iv) the Interest Shortfall Reimbursement Amount (if any) in respect of such Reference Obligation Payment Date.

Upon the occurrence of each Delivery, the Cumulative Interest Shortfall Amount shall be multiplied by a fraction equal to (a) the Applicable Percentage immediately following such Delivery divided by (b) the Applicable Percentage immediately prior to such Delivery; provided, however, that if more than one Delivery is made during a Reference Obligation Calculation Period, the Cumulative Interest Shortfall Amount calculated as of the Reference Obligation Payment Date occurring immediately after such Reference Obligation Calculation Period shall be multiplied by a fraction equal to (a) the Applicable Percentage immediately following the final Delivery made during such Reference Obligation Calculation Period over (b) the Applicable Percentage immediately prior to the first Delivery made during such Reference Obligation Calculation Period.

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Cumulative Interest Shortfall Payment Amount: The Cumulative Interest Shortfall Payment Amount with respect to any Fixed Rate Payer Payment Date and any Additional Fixed Amount Payment Date falling on such Fixed Rate Payer Payment Date shall be an amount equal to the greater of:

(a) zero; and

(b) the amount equal to:

(i) the sum of:

(A) the Interest Shortfall Payment Amount for the Reference Obligation Payment Date corresponding to such Fixed Rate Payer Payment Date; and

(B) the product of:

(1) the Cumulative Interest Shortfall Payment Amount as of the Fixed Rate Payer Payment Date immediately preceding such Fixed Rate Payer Payment Date (or zero in the case of the first Fixed Rate Payer Payment Date); and

(2) either:

(AA) if Interest Shortfall Compounding is specified as applicable in the relevant Confirmation, the relevant Cumulative Interest Shortfall Payment Compounding Factor; or

(BB) if Interest Shortfall Compounding is specified as not applicable in the relevant Confirmation, 1;

minus

(ii) any Interest Shortfall Reimbursement Payment Amount paid on such Fixed Rate Payer Payment Date.

With respect to any Additional Fixed Amount Payment Date falling after the final Fixed Rate Payer Payment Date, the Cumulative Interest Shortfall Payment Amount shall be

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equal to:

(x) the Cumulative Interest Shortfall Payment Amount as of the Additional Fixed Amount Payment Date immediately preceding such Additional Fixed Amount Payment Date (or as of the final Fixed Rate Payer Payment Date in the case of the first Additional Fixed Amount Payment Date occurring after the final Fixed Rate Payer Payment Date); minus

(y) any Interest Shortfall Reimbursement Payment Amount paid on such Additional Fixed Amount Payment Date.

Upon the occurrence of each Delivery, the Cumulative Interest Shortfall Payment Amount shall be multiplied by a fraction equal to (a) the Applicable Percentage immediately following such Delivery divided by (b) the Applicable Percentage immediately prior to such Delivery; provided, however, that if more than one Delivery is made during a Reference Obligation Calculation Period, the Cumulative Interest Shortfall Payment Amount calculated as of the Reference Obligation Payment Date occurring immediately after such Reference Obligation Calculation Period shall be multiplied by a fraction equal to (a) the Applicable Percentage immediately following the final Delivery made during such Reference Obligation Calculation Period and (b) the Applicable Percentage immediately prior to the first Delivery made during such Reference Obligation Calculation Period.

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Cumulative Interest Shortfall Payment Compounding Factor: With respect to any Fixed Rate Payer Calculation Period, an amount equal to the sum of:

(a) 1.0;

plus

(b) the product of:

(i) the sum of (A) the Relevant Rate plus (B) the Fixed Rate; and

(ii) the actual number of days in such Fixed Rate Payer Calculation Period divided by 360;

provided, however, that the Cumulative Interest Shortfall Payment Compounding Factor shall be deemed to be 1.0 during the period from but excluding the Effective Maturity Date to and including the Termination Date.

Relevant Rate: With respect to a Fixed Rate Payer Calculation Period, the Floating Rate, expressed as a decimal number with seven decimal places, that would be determined if:

(a) the 2000 ISDA Definitions (and not the 2003 ISDA Credit Derivatives Definitions) applied to this paragraph;

(b) the Fixed Rate Payer Calculation Period were a "Calculation Period" for purposes of such determination; and

(c) the following terms applied:

(i) the Floating Rate Option were the Rate Source;

(ii) the Designated Maturity were the period that corresponds to the usual length of a Fixed Rate Payer Calculation Period; and

(iii) the Reset Date were the first day of the Calculation Period;

provided, however, that the Relevant Rate shall be deemed to be zero during the period from but excluding the Effective Maturity Date to and including the Termination Date.

Rate Source: As shown in the relevant Confirmation.

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Schedule

Form of Novation Confirmation

[Headed paper of Party A]

NOVATION CONFIRMATION

for use with the ISDA Standard Terms Supplement for use with Credit Derivative Transaction on Mortgage-Backed Security with Pay-As-You-Go or Physical Settlement as published by the International Swaps and Derivatives Association, Inc.

Date:

To: [Name and Address or Facsimile Number of Party B and Party C]

From: [Party A]

Re: Novation Transaction

Dear _____:

The purpose of this [facsimile][letter] is to confirm the terms and conditions of the Novation Transaction entered into between the parties and effective from the Novation Date specified below. This Novation Confirmation constitutes a "Confirmation" as referred to in the New Agreement specified below.

1. The definitions and provisions contained in the 2004 ISDA Novation Definitions (the "Definitions"), the terms and provisions of the 2003 ISDA Credit Derivatives Definitions (the "Credit Derivatives Definitions"), as published by the International Swaps and Derivatives Association, Inc. and amended from time to time and the Annex hereto are each incorporated in this Novation Confirmation. In the event of any inconsistency between (i) the Definitions (as amended by the Annex hereto), (ii) the Credit Derivatives Definitions and/or (iii) the Novation Agreement (as amended by the Annex hereto), this Novation Confirmation will govern.

2. The terms of the Novation Transaction to which this Novation Confirmation relates are as follows:

[Novation Trade Date:]
Novation Date:
Novated Percentage:
[Transferor][Transferor 1 (and notwithstanding Section 1.5 of the Definitions)]:
[Transferor 2 (and notwithstanding Section 1.5 of the Definitions)]:
[Transferee][Transferee 1]:

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[Remaining Party (and notwithstanding Section 1.6 of the Definitions)][Transferee 2 (and notwithstanding Section 1.6 of the Definitions)]:	
[New Agreement (between [Transferee 1 and Transferee 2][Transferee and Remaining Party])]:	ISDA Master Agreement [dated as of_____][as per Section 1.11 of the Definitions] subject to [English law][the laws of the State of New York]

3. The terms of each Old Transaction to which this Novation Confirmation relates[, for identification purposes, are as follows:][shall be specified in the copy of the Old Confirmation attached hereto as Exhibit A.]

Reference Entity:
Reference Obligation:
Trade Date of Old Transaction:
Effective Date of Old Transaction:
Applicable Percentage of Old Transaction:
Scheduled Termination Date of Old Transaction:

4. The terms of each New Transaction to which this Novation Confirmation relates [are as follows:][shall be specified in Section[s] __ [,___and___] of] the copy of the Old Confirmation attached hereto as Exhibit A.][shall be specified in the New Confirmation attached hereto as Exhibit [A][B]].

Full First Calculation Period	Applicable, [commencing on [ ]] [commencing on [ ], with respect to any amounts to be paid by the Transferee, and [ ], with respect to any amounts to be paid by the Remaining Party.

5. Other Provisions: [[Additional Provisions relating to the New Transaction][Credit Support Documents relating to the New Transaction]]:

6. Miscellaneous Provisions: [Non-Reliance][ ]

7. Notice Details:

Telephone and/or Facsimile Numbers for Notices:	
Transferee:	[ ]
Remaining Party:	[ ]

8. [The parties confirm their acceptance to be bound by this Novation Confirmation as of the Novation Date by executing a copy of this Novation Confirmation and returning it to us]. The Transferor, by its execution of a copy of this Novation Confirmation, agrees to the terms of the Novation Confirmation as it relates to each Old Transaction. The Transferee, by its execution of a

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copy of this Novation Confirmation, agrees to the terms of the Novation Confirmation as it relates to each New Transaction.].

9. The Remaining Party and the Transferee agree that, notwithstanding any provision in the Old Transaction to which this Novation Confirmation relates, all rights of the Remaining Party and the Transferor in respect of Floating Amounts and Additional Fixed Amounts that arose before the Novation Date shall be deemed to have been exercised and all obligations of such parties in respect of such events that have arisen or are deemed to have arisen shall be deemed to have been satisfied in full, in each case solely for the purposes of determining the rights and obligations of the Remaining Party and the Transferee under the New Transaction. Nothing in this paragraph shall affect the rights or obligations of the Remaining Party or the Transferor under the Old Transaction.

.....	.....
(Name of Remaining Party)	(Name of Transferor)
By:	By: .....
Name:	Name:
Title:	Title:
Date:	Date:

.....
(Name of Transferee)

By: .....
Name: .....
Title: .....
Date: .....

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Annex

1. Section 2(a) of the Novation Agreement shall be deemed to be amended as follows:

   (a) by the insertion of "(i) " after the words "with respect to" in the fifth line thereof; and

   (b) by the addition of the following at the end thereof:

   "and any rights or obligations arising in respect of Floating Amount Events or Additional Fixed Amount Events, in each case in respect of which the Remaining Party or the Transferor (each an "Original Party"), as applicable, had the right to deliver a notice pursuant to the terms of the Old Transaction but such notice was not delivered by that party or the Calculation Agent prior to the Novation Date (each an "Excluded Event") provided that the rights of the Original Parties to deliver a notice in respect of an Excluded Event pursuant to the Old Transaction shall expire on the 60thcalendar day following the Novation Date."

2. Section 2(b) of the Novation Agreement shall be deemed to be amended by the addition of the following after the words "Novation Date," in the last line thereof:

   "but excluding any rights or obligations in respect of Excluded Events,"

3. The definition of "Novated Amount" in Section 1.18 of the Definitions shall be replaced by the following definition of "Novated Percentage":

   ""Novated Percentage" means the portion of the Applicable Percentage of the Old Transaction that is the subject of the Novation Transaction. If the Novated Percentage is less than 100% of the Applicable Percentage of the Old Transaction, the Old Transaction shall remain in full force and effect but all future payments, deliveries and calculations thereunder shall be based on an Applicable Percentage that has been reduced by the relevant Novated Percentage."

   Each reference to "Novated Amount" in the Definitions and the Novation Agreement shall be deemed to be a reference to "Novated Percentage".

4. Section 2.1(a)(iii)(D)(i) of the Definitions shall not apply

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SCHEDULE K

FORM OF CONFIRMATION FOR CDO SECURITIES

Deutsche Bank AG

Date:

To:

Attention:

Fax No.:

Our Reference:

RE: Credit Derivative Transaction on Collateralized Debt Obligation Security with Pay-As-You-Go or Physical Settlement (Dealer Form—adjusted for Gemstone CDO VII Ltd.)

Dear Sir/Madam:

The purpose of this letter (the **"Confirmation"**) is to confirm the terms and conditions of the Credit Derivative Transaction relating to a collateralized debt obligation security reference obligation entered into between Deutsche Bank AG, acting through its London Branch (**"Party A"**) and Gemstone CDO VII Ltd. (**"Party B"**) on the Trade Date specified below (the **"Transaction"**). This Confirmation constitutes a "Confirmation" as referred to in the ISDA Master Agreement specified below.

The definitions and provisions contained in the 2003 ISDA Credit Derivatives Definitions (the **"Credit Derivatives Definitions"**), as published by the International Swaps and Derivatives Association, Inc., are incorporated into this Confirmation. In the event of any inconsistency between the Credit Derivatives Definitions and this Confirmation, this Confirmation shall govern.

This Confirmation supplements, forms a part of, and is subject to, the ISDA Master Agreement, dated as of June 27, 2006, as amended and supplemented from time to time (the **"Agreement"**), between you and us. All provisions contained in the Agreement govern this Confirmation except as expressly modified below.

References in this Confirmation to the "Reference Obligation" shall be to the terms of the Reference Obligation (as defined below) set out in the Underlying Instruments (as defined below) as amended from time to time unless otherwise specified below.

The terms of the Transaction to which this Confirmation relates are as follows:

1. **General Terms:**

Trade Date:	[●]
Effective Date:	[●]
Scheduled Termination Date:	Subject to paragraph 5, the Legal Final Maturity Date of the Reference Obligation, subject to adjustment in accordance with the Following Business Day Convention.
Termination Date:	The last to occur of:
	(a) the fifth Business Day following the Effective Maturity Date;

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	(b) the last Floating Rate Payer Payment Date;
	(c) the last Delivery Date; and
	(d) the last Additional Fixed Amount Payment Date.
Floating Rate Payer:	Party B (the **"Seller"**).
Fixed Rate Payer:	Party A (the **"Buyer"**).
Calculation Agent:	Party A
Calculation Agent City:	New York
Business Day:	New York and London
Business Day Convention:	Following (which, with the exception of the Effective Date, the Final Amortization Date, each Reference Obligation Payment Date and the period end date of each Reference Obligation Calculation Period, shall apply to any date referred to in this Confirmation that falls on a day that is not a Business Day).
Reference Entity:	[●]
Reference Obligation:	The obligation identified as follows:
	Issuer: The Reference Entity
	Insurer: [●]
	CUSIP/ISIN: [●]
	Bloomberg ID: [●]
	Legal final maturity date: [●]
	Original Principal Amount: [●]
	Initial Factor: [●]
	Coupon: [●]
	Section 2.30 of the Credit Derivatives Definitions shall not apply.
Reference Policy:	Not Applicable
Reference Price:	100%
Applicable Percentage:	On any day, a percentage equal to A *divided* by B.
	"A" means the product of the Initial Face Amount and the Initial Factor as decreased on each Delivery Date by an amount equal to (a) the outstanding principal balance of Deliverable Obligations Delivered to Seller (as adjusted by the Relevant Amount, if any) *divided* by the Current Factor on such day *multiplied* by (b) the Initial Factor.
	"B" means the product of the Original Principal Amount and the Initial Factor;

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	(a) as increased by the outstanding principal balance of any further issues by the Reference Entity that are fungible with and form part of the same legal series as the Reference Obligation; and
	(b) as decreased by any cancellations of some or all of the Outstanding Principal Amount resulting from purchases of the Reference Obligation by or on behalf of the Reference Entity.
Initial Face Amount:	[●]
Reference Obligation Notional Amount:	On the Effective Date, the product of: (a) the Original Principal Amount;
	(b) the Initial Factor; and
	(c) the Applicable Percentage.
	Following the Effective Date, the Reference Obligation Notional Amount will be:
	(i) decreased on each day on which a Principal Payment is made by the relevant Principal Payment Amount;
	(ii) decreased on the day, if any, on which a Failure to Pay Principal occurs by the relevant Principal Shortfall Amount;
	(iii) decreased on each day on which a Writedown occurs by the relevant Writedown Amount;
	(iv) increased on each day on which a Writedown Reimbursement occurs by any Writedown Reimbursement Amount in respect of a Writedown Reimbursement within paragraphs (ii) or (iii) of the definition of "Writedown Reimbursement"; and
	(v) decreased on each Delivery Date by an amount equal to the relevant Exercise Amount *minus* the amount determined pursuant to paragraph (b) of "Physical Settlement Amount" below, *provided* that if any Relevant Amount is applicable, the Exercise Amount will also be deemed to be decreased by such Relevant Amount (or increased by the absolute value of such Relevant Amount if such Relevant Amount is negative) with effect from such Delivery Date;
	provided that if the Reference Obligation Notional Amount would be less than zero, it shall be deemed to be zero.

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	For the avoidance of doubt, the Reference Obligation Notional Amount shall not be increased by any deferral or capitalization of interest during the Term of this Transaction or decreased by payment of any portion of the principal balance of the Reference Obligation that is attributable to deferral or capitalization of interest during the Term of this Transaction.
Initial Payment:	[Not applicable]
	[On [the Effective Date], [Buyer]/[Seller] will pay [USD][ ] to [Seller]/[Buyer].]

2. **Fixed Payments:**

Fixed Rate Payer:	Buyer
Fixed Rate:	[●]% *per annum*; subject to adjustment in accordance with paragraph 5 below.
Fixed Rate Payer Period End Date:	The first day of each Reference Obligation Calculation Period.
Fixed Rate Payer Payment Dates:	Each day falling five Business Days after a Reference Obligation Payment Date; *provided* that the final Fixed Rate Payer Payment Date shall fall on the fifth Business Day following the Effective Maturity Date.
Fixed Amount:	With respect to any Fixed Rate Payer Payment Date, an amount equal to the product of:
	(a) the Fixed Rate;
	(b) an amount determined by the Calculation Agent equal to:
	(i) the sum of the Reference Obligation Notional Amount as at 5:00 p.m. in the Calculation Agent City on each day in the related Fixed Rate Payer Calculation Period; *divided* by
	(ii) the actual number of days in the related Fixed Rate Payer Calculation Period; and
	(c) the actual number of days in the related Fixed Rate Payer Calculation Period *divided* by 360.
Additional Fixed Amount Payment Dates:	(a) Each Fixed Rate Payer Payment Date; and
	(b) In relation to each Additional Fixed Payment Event occurring after the second Business Day prior to the last Fixed Rate Payer Payment Date, the fifth Business Day after Buyer has received notification from Seller or the Calculation Agent of the occurrence of such Additional Fixed Payment Event.

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Additional Fixed Payments:	Following the occurrence of an Additional Fixed Payment Event in respect of the Reference Obligation, Buyer shall pay the relevant Additional Fixed Amount to Seller on the first Additional Fixed Amount Payment Date falling at least two Business Days (or in the case of an Additional Fixed Payment Event that occurs after the second Business Day prior to the last Fixed Rate Payer Payment Date, five Business Days) after the delivery of a notice by the Calculation Agent to the parties or by Seller to Buyer stating that the related Additional Fixed Amount is due and showing in reasonable detail how such Additional Fixed Amount was determined; *provided* that any such notice must be given on or prior to the fifth Business Day following the day that is one calendar year after the Effective Maturity Date.
Additional Fixed Payment Event:	The occurrence on or after the Effective Date and on or before the day that is one calendar year after the Effective Maturity Date of a Writedown Reimbursement, a Principal Shortfall Reimbursement or an Interest Shortfall Reimbursement.
Additional Fixed Amount:	With respect to each Additional Fixed Amount Payment Date, an amount equal to the sum of:
	(a) the Writedown Reimbursement Payment Amount (if any);
	(b) the Principal Shortfall Reimbursement Payment Amount (if any); and
	(c) the Interest Shortfall Reimbursement Payment Amount (if any).
	For the avoidance of doubt, each Writedown Reimbursement Payment Amount, Principal Shortfall Reimbursement Payment Amount or Interest Shortfall Reimbursement Payment Amount (as applicable) shall be calculated using the Applicable Percentage which takes into account the aggregate adjustment made to the Applicable Percentage in respect of all Delivery Dates that have occurred prior to the date of such calculation.

3. **Floating Payments:**

Floating Rate Payer:	Seller
Floating Rate Payer Payment Dates:	In relation to a Floating Amount Event, the first Fixed Rate Payer Payment Date falling at least two Business Days (or in the case of a Floating Amount Event that occurs on the Legal Final Maturity Date or the Final Amortization Date, the fifth Business Day) after delivery of a notice by the Calculation Agent to the parties or a notice by Buyer to Seller that the related Floating Amount is due and showing in reasonable detail how such Floating Amount was determined; *provided* that any such notice must be given on or prior to the fifth Business Day following the Effective Maturity Date.

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Floating Payments:	If a Floating Amount Event occurs, then on the relevant Floating Rate Payer Payment Date, Seller will pay the relevant Floating Amount to Buyer. For the avoidance of doubt, the Conditions to Settlement are not required to be satisfied in respect of a Floating Payment.
Implied Writedown:	Not Applicable
Floating Amount Event:	A Writedown, a Failure to Pay Principal or an Interest Shortfall.
Floating Amount:	With respect to each Floating Rate Payer Payment Date, an amount equal to the sum of:
	(a) the relevant Writedown Amount (if any);
	(b) the relevant Principal Shortfall Amount (if any); and
	(c) the relevant Interest Shortfall Payment Amount (if any).
	For the avoidance of doubt, each Writedown Amount, Principal Shortfall Amount or Interest Shortfall Payment Amount (as applicable) shall be calculated using the Applicable Percentage which takes into account the aggregate adjustment made to the Applicable Percentage in respect of all Delivery Dates that have occurred prior to the date of such calculation.
Conditions to Settlement:	Credit Event Notice
	Notifying Party: Buyer
	Notice of Physical Settlement
	Notice of Publicly Available Information: Applicable
	Public Sources: The public sources listed in Section 3.7 of the Credit Derivatives Definitions; *provided* that Servicer Reports in respect of the Reference Obligation and, in respect of a Distressed Ratings Downgrade Credit Event only, any public communications by any of the Rating Agencies in respect of the Reference Obligation shall also be deemed Public Sources.
	Specified Number: 1

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	provided that if the Calculation Agent has previously delivered a notice to the parties or Buyer has previously delivered a notice to Seller pursuant to the definition of "Floating Rate Payer Payment Dates" above in respect of a Writedown or a Failure to Pay Principal, the only Conditions to Settlement with respect to any Credit Event shall be a Notice of Physical Settlement and, in relation to the Failure to Pay Interest Credit Event, the Additional Condition to Settlement specified below.
Additional Condition to Settlement for Failure to Pay Interest:	In addition to the Conditions to Settlement above, in respect of the Failure to Pay Interest Credit Event, if the Reference Obligation is PIK-able, it shall be a Condition to Settlement that a period of at least 360 calendar days has elapsed since the occurrence of the Credit Event without the relevant Interest Shortfall having been reimbursed in full. For the avoidance of doubt, if it is not explicitly made clear in the Servicer Report whether or not, or to what extent, a particular Interest Shortfall has been reimbursed but the Calculation Agent determines that such Interest Shortfall has been reimbursed by a certain amount on the basis of information in such Servicer Report, then the relevant Interest Shortfall reimbursement shall be calculated by the Calculation Agent on the basis of such information.
Additional agreements relating to Physical Settlement:	The parties agree that with respect to the Transaction and notwithstanding anything to the contrary in the Credit Derivatives Definitions:
	(a) the Conditions to Settlement may be satisfied on more than one occasion;
	(b) multiple Physical Settlement Amounts may be payable by Seller;
	(c) Buyer, when providing a Notice of Physical Settlement, must specify an Exercise Amount and an Exercise Percentage;
	(d) if Buyer has delivered a Notice of Physical Settlement that specifies an Exercise Amount that is less than the Reference Obligation Notional Amount as of the date on which such Notice of Physical Settlement is delivered (calculated as though Physical Settlement in respect of all previously delivered Notices of Physical Settlement has occurred in full), the rights and obligations of the parties under the Transaction shall continue and Buyer may deliver additional Notices of Physical Settlement with respect to the initial Credit Event or with respect to any additional Credit Event at any time thereafter; and
	(e) any Notice of Physical Settlement shall be delivered no later than 30 calendar days after the fifth Business Day following the Effective Maturity Date.

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	Section 3.2(d) of the Credit Derivatives Definitions is amended to delete the words "that is effective no later than thirty calendar days after the Event Determination Date".
Credit Events:	The following Credit Events shall apply to this Transaction (and the first sentence of Section 4.1 of the Credit Derivatives Definitions shall be amended accordingly):
	Failure to Pay Principal
	Writedown
	Failure to Pay Interest
	Payment Requirement: USD 10,000
	Distressed Ratings Downgrade
	The definition of "Payment Requirement" in Section 4.8(d) of the Credit Derivatives Definitions shall be amended so that the words "Failure to Pay" are deleted and replaced by the words "Failure to Pay Interest".
Obligation:	Reference Obligation Only

4. **Interest Shortfall:**

Interest Shortfall Payment Amount:	In respect of an Interest Shortfall, the relevant Interest Shortfall Amount; *provided* that, if Interest Shortfall Cap is applicable and the Interest Shortfall Amount exceeds the Interest Shortfall Cap Amount, the Interest Shortfall Payment Amount in respect of such Interest Shortfall shall be the Interest Shortfall Cap Amount.
Interest Shortfall Cap:	Applicable
Interest Shortfall Cap Amount:	As set out in the Interest Shortfall Cap Annex.
Actual Interest Amount:	With respect to any Reference Obligation Payment Date, payment by or on behalf of the Issuer of an amount in respect of interest due under the Reference Obligation (including, without limitation, any deferred interest or defaulted interest relating to the Term of this Transaction but excluding payments in respect of prepayment penalties, yield maintenance provisions or principal, except that the Actual Interest Amount shall include any payment of principal representing capitalized interest) to the holder(s) of the Reference Obligation in respect of the Reference Obligation.
Expected Interest Amount:	With respect to any Reference Obligation Payment Date, the amount of current interest that would accrue during the related Reference Obligation Calculation Period calculated using the Reference Obligation Coupon on a principal balance of the Reference Obligation equal to:

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	(a) the Outstanding Principal Amount taking into account any reductions due to a principal deficiency balance or realized loss amount (however described in the Underlying Instruments) that are attributable to the Reference Obligation; *minus*
	(b) the Aggregate Implied Writedown Amount (if any),
	and that will be payable on the related Reference Obligation Payment Date assuming for this purpose that sufficient funds are available therefor in accordance with the Underlying Instruments.
	Except as provided in (a) in the previous sentence, the Expected Interest Amount shall be determined without regard to (i) unpaid amounts in respect of accrued interest on prior Reference Obligation Payment Dates; (ii) any prepayment penalties or yield maintenance provisions; and (iii) the effect of any provisions (however described) of such Underlying Instruments that otherwise permit the limitation of due payments to distributions of funds available from proceeds of the Underlying Assets, or that provide for the capitalization or deferral of interest on the Reference Obligation, or that provide for the extinguishing or reduction of such payments or distributions (but, for the avoidance of doubt, taking account of any Writedown within paragraph (i) of the definition of "Writedown" occurring in accordance with the Underlying Instruments).
Interest Shortfall:	With respect to any Reference Obligation Payment Date, either (a) the non-payment of an Expected Interest Amount or (b) the payment of an Actual Interest Amount that is less than the Expected Interest Amount.
	For the avoidance of doubt, the occurrence of an event within (a) or (b) shall be determined taking into account any payment made under the Reference Policy, if applicable.
Interest Shortfall Amount:	With respect to any Reference Obligation Payment Date, an amount equal to the greater of:
	(a) zero; and
	(b) the amount equal to the product of:
	(i) (A) the Expected Interest Amount;
	minus
	(B) the Actual Interest Amount; and
	(ii) the Applicable Percentage;
	provided that, with respect to the first Reference Obligation Payment Date only, the Interest Shortfall Amount shall be the amount determined in accordance with (a) and (b) above *multiplied* by a fraction equal to:

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	(x) the number of days in the first Fixed Rate Payer Calculation Period; over
	(y) the number of days in the first Reference Obligation Calculation Period.
Interest Shortfall Reimbursement:	With respect to any Reference Obligation Payment Date, the payment by or on behalf of the Issuer of an Actual Interest Amount in respect of the Reference Obligation that is greater than the Expected Interest Amount.
Interest Shortfall Reimbursement Amount:	With respect to any Reference Obligation Payment Date, the product of (a) the amount of any Interest Shortfall Reimbursement on such day and (b) the Applicable Percentage.
Interest Shortfall Reimbursement Payment Amount:	With respect to an Additional Fixed Amount Payment Date, (a) if Interest Shortfall Cap is not applicable, the relevant Interest Shortfall Reimbursement Amount, and (b) if Interest Shortfall Cap is applicable, the amount determined pursuant to the Interest Shortfall Cap Annex; *provided*, in either case, that the aggregate of all Interest Shortfall Reimbursement Payment Amounts (determined for this purpose on the basis that Interest Shortfall Compounding is not applicable) at any time shall not exceed the aggregate of Interest Shortfall Payment Amounts paid by Seller in respect of Interest Shortfalls occurring prior to such Additional Fixed Amount Payment Date.

5. **Settlement Terms:**

Settlement Method:	Physical Settlement
Terms Relating to Physical Settlement:	
Physical Settlement Period:	Five Business Days
Deliverable Obligations:	Exclude Accrued Interest
Deliverable Obligations:	Deliverable Obligation Category:
	Reference Obligation Only
Physical Settlement Amount:	An amount equal to:
	(a) the product of the Exercise Amount and the Reference Price; *minus*
	(b) the sum of:
	(i) If the Aggregate Implied Writedown Amount is greater than zero, the product of (A) the Aggregate Implied Writedown Amount, (B) the Applicable Percentage, each as determined immediately prior to the relevant Delivery and (C) the relevant Exercise Percentage; and

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	(ii) the product of (A) the aggregate of all Writedown Amounts in respect of Writedowns within paragraph (i)(B) of the definition of "Writedown" *minus* the aggregate of all Writedown Reimbursement Amounts in respect of Writedown Reimbursements within paragraph (ii)(B) of the definition of "Writedown Reimbursement" and (B) the relevant Exercise Percentage,
	provided that if the Physical Settlement Amount would exceed the product of:
	(1) the Reference Obligation Notional Amount as of the date on which the relevant Notice of Physical Settlement is delivered calculated as though Physical Settlement in respect of all previously delivered Notices of Physical Settlement has occurred in full; and
	(2) the Exercise Percentage;
	then the Physical Settlement Amount shall be deemed to be equal to such product.
Delayed Payment:	With respect to a Delivery Date, if a Servicer Report that describes a Delayed Payment is delivered to holders of the Reference Obligation or to the Calculation Agent on or after such Delivery Date, Buyer will pay the applicable Delayed Payment Amount to Seller no later than five Business Days following the receipt of such Servicer Report.
Escrow:	Applicable
Non-delivery by Buyer or occurrence of the Effective Maturity Date:	If Buyer has delivered a Notice of Physical Settlement and:
	(a) Buyer does not Deliver in full the Deliverable Obligations specified in that Notice of Physical Settlement on or prior to the Physical Settlement Date; or
	(b) the Effective Maturity Date occurs after delivery of the Notice of Physical Settlement but before Buyer Delivers the Deliverable Obligations specified in that Notice of Physical Settlement;
	then such Notice of Physical Settlement shall be deemed not to have been delivered and any reference in this Confirmation to a previously delivered Notice of Physical Settlement shall exclude any Notice of Physical Settlement that is deemed not to have been delivered. Sections 9.2(c)(ii) (except for the first sentence thereof), 9.3, 9.4, 9.5, 9.6, 9.9 and 9.10 of the Credit Derivatives Definitions shall not apply.

6. Additional Provisions:

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(a) *Delivery of Servicer Report*

If either party makes a request in writing, the Calculation Agent agrees to provide such party with a copy of the most recent Servicer Report promptly following receipt of such request, if and to the extent such Servicer Report is reasonably available to the Calculation Agent (whether or not the Calculation Agent is a holder of the Reference Obligation). In addition, if a Floating Payment or an Additional Fixed Payment is due hereunder, then the Calculation Agent or the party that notifies the other party that the relevant Floating Payment or Additional Fixed Payment is due, as applicable, (the **"Notifying Party"**) shall deliver a copy of any Servicer Report relevant to such payment that is requested by the party that is not the Notifying Party or by either party where the Notifying Party is the Calculation Agent, if and to the extent that such Servicer Report is reasonably available to the Notifying Party (whether or not the Notifying Party is a holder of the Reference Obligation).

(b) *Calculation Agent and Buyer and Seller Determinations*

The Calculation Agent shall be responsible for determining and calculating (i) the Fixed Amount payable on each Fixed Rate Payer Payment Date; (ii) the occurrence of a Floating Amount Event and the related Floating Amount and (iii) the occurrence of an Additional Fixed Payment Event and the related Additional Fixed Amount; *provided* that notwithstanding the above, each of Buyer and Seller shall be entitled to determine and calculate the above amounts to the extent that Buyer or Seller, as applicable, has the right to deliver a notice to the other party demanding payment of such amount. The Calculation Agent or Buyer or Seller, as applicable, shall make such determinations and calculations based solely on the basis of the Servicer Reports, to the extent such Servicer Reports are reasonably available to the Calculation Agent or such party. The Calculation Agent or Buyer or Seller, as applicable, shall, as soon as practicable after making any of the determinations or calculations specified in (i) and (ii) above, notify the parties or the other party, as applicable, of such determinations and calculations. For the avoidance of doubt, if an Interest Shortfall Amount is not explicitly set out in the Servicer Report but the Calculation Agent determines that an Interest Shortfall has occurred on the basis of information in such Servicer Report, then the relevant Interest Shortfall Amount shall be calculated by the Calculation Agent on the basis of such information.

(c) *Adjustment of Calculation Agent Determinations*

To the extent that a Servicer furnishes any Servicer Reports correcting information contained in previously issued Servicer Reports, and such corrections impact calculations pursuant to this Transaction, the calculations relevant to the Transaction shall be adjusted retroactively by the Calculation Agent to reflect the corrected information (*provided* that, for the avoidance of doubt, no amounts in respect of interest shall be payable by either party and *provided* that the Calculation Agent in performing the calculations pursuant to this paragraph will assume that no interest has accrued on any adjusted amount), and the Calculation Agent shall promptly notify both parties of any corrected payments required by either party. Any required corrected payments shall be made within five Business Days of the day on which such notification by the Calculation Agent is effective.

7. **Offices:**

The Office of Seller for this Transaction is George Town, Grand Cayman, Cayman Islands.

The Office of Buyer for this Transaction is London.

8. **Notice and Account Details:**

Telephone, Telex and/or Facsimile Numbers and Contact Details for Notices:		
	Buyer:	Deutsche Bank AG, London
		Winchester House
		1 Great Winchester Street
		London EC2N 2DB
		Attention:
		Telephone: +1 212 250 7730
	Seller:	Gemstone CDO VII Ltd.

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	Attention: [] Facsimile: []
	With a copy to:
	HBK Investments, L.P. [] Attention: [] Facsimile: []
Account Details:	
Account Details of Buyer:	[]
	Swift BIC Code: []
	Account No: []
	Fed ABA No: []
	CHIPS ABA No: []
	CHIPS UID No: []
	Favour []
Account Details of Seller:	[]
	Account No: []
	Fed ABA No: []
	Benef Name: []
	Benef Address: []
	FC: []
	OBI: []

9. Additional Definitions and Amendments to the Credit Derivatives Definitions:

(a) References in Sections 4.1, 8.2, 9.1 and 9.2(a) of the Credit Derivatives Definitions as well as Section 3(a)(iv) of the form of Novation Agreement set forth in Exhibit E to the Credit Derivatives Definitions to the Reference Entity shall be deemed to be references to both the Reference Entity and the Insurer in respect of the Reference Policy, if applicable.

(b) (i) The definition of "Publicly Available Information" in Section 3.5 of the Credit Derivatives Definitions shall be amended by (i) inserting the words "the Insurer in respect of the Reference Policy, if applicable" at the end of subparagraph (a)(ii)(A) thereof, (ii) inserting the words ", servicer, sub-servicer, master servicer" before the words "or paying agent" in subparagraph (a)(ii)(B) thereof and (iii) deleting the word "or" at the end of subparagraph (a)(iii) thereof and inserting at the end of subparagraph (a)(iv) thereof the following: "or (v) is information contained in a notice or on a website published by an internationally recognized rating agency that has at any time rated the Reference Obligation".

(ii) The definition of "Physical Settlement" in Section 8.1 of the Credit Derivatives Definitions shall be amended by (i) deleting the words "Physical Settlement Amount" from the last line of the second paragraph thereof and (ii) inserting in lieu thereof the words "Exercise Amount".

(iii) The definition of "Physical Settlement Date" in Section 8.4 of the Credit Derivatives Definitions shall be amended by deleting the last sentence thereof.

(c) For the purposes of this Transaction only, the following terms have the meanings given below:

"Actual Principal Amount" means, with respect to the Final Amortization Date or the Legal Final Maturity Date, an amount paid on such day by or on behalf of the Issuer in respect of principal (excluding any capitalized interest) to the holder(s) of the Reference Obligation in respect of the Reference Obligation.

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"Aggregate Implied Writedown Amount" means the greater of (i) zero and (ii) the aggregate of all Implied Writedown Amounts *minus* the aggregate of all Implied Writedown Reimbursement Amounts, *provided* that if Implied Writedown is not applicable, the Aggregate Implied Writedown Amount shall be deemed to be zero.

"Current Factor" means the factor of the Reference Obligation as specified in the most recent Servicer Report; *provided* that if the factor is not specified in the most recent Servicer Report or such specified factor includes deferred or capitalized interest relating to the Term of this Transaction, then the Current Factor shall be the ratio equal to (i) the Outstanding Principal Amount as of such date, determined in accordance with the most recent Servicer Report over (ii) the Original Principal Amount.

"Current Period Implied Writedown Amount" means, in respect of a Reference Obligation Calculation Period, an amount determined as of the last day of such Reference Obligation Calculation Period equal to the greater of:

(i) zero; and

(ii) the product of:

(A) the Implied Writedown Percentage; and

(B) the greater of:

(1) zero; and

(2) the lesser of (x) the Pari Passu Amount and (y) the product of (I) the Pari Passu Amount *plus* the Senior Amount and (II) an amount equal to one *minus* the Overcollateralization Ratio.

"Delayed Payment" means, with respect to a Delivery Date, a Principal Payment, Principal Shortfall Reimbursement or a Writedown Reimbursement within paragraph (i) of the definition of "Writedown Reimbursement" that is described in a Servicer Report delivered to holders of the Reference Obligation or to the Calculation Agent on or after such Delivery Date.

"Delayed Payment Amount" means, if persons who are holders of the Reference Obligation as of a date prior to a Delivery Date are paid a Delayed Payment on or after such Delivery Date, an amount equal to the product of (i) the sum of all such Delayed Payments, (ii) the Reference Price, (iii) the Applicable Percentage immediately prior to such Delivery Date and (iv) the Exercise Percentage.

"Distressed Ratings Downgrade" means that the Reference Obligation:

(i) if publicly rated by Moody's, (A) is downgraded to "Caa2" or below by Moody's or (B) has the rating assigned to it by Moody's withdrawn and, in either case, not reinstated within five Business Days of such downgrade or withdrawal; *provided* that if such Reference Obligation was assigned a public rating of "Baa3" or higher by Moody's immediately prior to the occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "Caa1" by Moody's within three calendar months 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 shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "CCC+" by Standard & Poor's within three calendar months 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 shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "CCC+" by Fitch within three calendar months after such withdrawal.

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"Effective Maturity Date" means the earlier of (a) the Scheduled Termination Date and (b) the Final Amortization Date.

"Exercise Amount" means, for purposes of the Transaction, an amount to which a Notice of Physical Settlement relates equal to the product of (i) the original face amount of the Reference Obligation to be Delivered by Buyer to Seller on the applicable Physical Settlement Date; and (ii) the Current Factor as of such date. The Exercise Amount to which a Notice of Physical Settlement relates shall (A) be equal to or less than the Reference Obligation Notional Amount (determined, for this purpose, without regard to the effect of any Writedown or Writedown Reimbursement within paragraphs (i)(B) or (iii) of "Writedown" or paragraphs (ii)(B) or (iii) of "Writedown Reimbursement", respectively) as of the date on which the relevant Notice of Physical Settlement is delivered calculated as though the Physical Settlement of all previously delivered Notices of Physical Settlement has occurred in full and (B) not be less than the lesser of (1) the Reference Obligation Notional Amount as of the date on which the relevant Notice of Physical Settlement is delivered calculated as though Physical Settlement in respect of all previously delivered Notices of Physical Settlement has occurred in full and (2) USD100,000. The cumulative original face amount of Deliverable Obligations specified in all Notices of Physical Settlement shall not at any time exceed the Initial Face Amount. For the avoidance of doubt: (a) if any capitalization of interest in respect of the Reference Obligation occurred during the Term of this Transaction and has not been recovered by holders of the Reference Obligation pursuant to the terms of the Underlying Instruments, then, for the purposes of determining the amount of Deliverable Obligations to be Delivered, the Exercise Amount (determined above by reference to the original face amount) will represent an outstanding principal balance of the Reference Obligation to be Delivered by Buyer that includes the proportion of unrecovered interest attributable to the Reference Obligation to be Delivered and (b) notwithstanding the foregoing, the Physical Settlement Amount payable by Seller in relation to such Exercise Amount shall not include any amount in respect of such unrecovered interest.

"Exercise Percentage" means, with respect to a Notice of Physical Settlement, a percentage equal to the original face amount of the Deliverable Obligations specified in such Notice of Physical Settlement *divided* by an amount equal to (i) the Initial Face Amount *minus* (ii) the aggregate of the original face amount of all Deliverable Obligations specified in all previously delivered Notices of Physical Settlement.

"Expected Principal Amount" means, with respect to the Final Amortization Date or the Legal Final Maturity Date, an amount equal to (i) the Outstanding Principal Amount of the Reference Obligation payable on such day (excluding capitalized interest) assuming for this purpose that sufficient funds are available for such payment, where such amount shall be determined in accordance with the Underlying Instruments, *minus* (ii) the sum of (A) the Aggregate Implied Writedown Amount (if any) and (B) the net aggregate principal deficiency balance or realized loss amounts (however described in the Underlying Instruments) that are attributable to the Reference Obligation. The Expected Principal Amount shall be determined without regard to the effect of any provisions (however described) of the Underlying Instruments that permit the limitation of due payments or distributions of funds in accordance with the terms of such Reference Obligation or that provide for the extinguishing or reduction of such payments or distributions.

"Failure to Pay Interest" means the occurrence of an Interest Shortfall Amount or Interest Shortfall Amounts (calculated on a cumulative basis) in excess of the relevant Payment Requirement.

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

"Final Amortization Date" means the first to occur of (i) the date on which the Reference Obligation Notional Amount is reduced to zero and (ii) the date on which the assets securing the Reference Obligation or designated to fund amounts due in respect of the Reference Obligation are liquidated, distributed or otherwise disposed of in full and the proceeds thereof are distributed or otherwise disposed of in full.

"Fitch" means Fitch Ratings or any successor to its rating business.

"Implied Writedown Amount" means, (i) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) of the definition of "Writedown" to occur in respect of the Reference Obligation, on any Reference Obligation Payment Date, an amount determined by the Calculation

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Agent equal to the excess, if any, of the Current Period Implied Writedown Amount over the Previous Period Implied Writedown Amount, in each case in respect of the Reference Obligation Calculation Period to which such Reference Obligation Payment Date relates, and (ii) in any other case, zero.

"Implied Writedown Percentage" means (i) the Outstanding Principal Amount *divided* by (ii) the Pari Passu Amount.

"Implied Writedown Reimbursement Amount" means, (i) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) of the definition of "Writedown" to occur in respect of the Reference Obligation, on any Reference Obligation Payment Date, an amount determined by the Calculation Agent equal to the excess, if any, of the Previous Period Implied Writedown Amount over the Current Period Implied Writedown Amount, in each case in respect of the Reference Obligation Calculation Period to which such Reference Obligation Payment Date relates, and (ii) in any other case, zero, *provided* that the aggregate of all Implied Writedown Reimbursement Amounts at any time shall not exceed the product of the Pari Passu Amount and the Implied Writedown Percentage.

"Legal Final Maturity Date" means the date set out in paragraph 1 above (subject, for the avoidance of doubt, to any business day convention applicable to the legal final maturity date of the Reference Obligation), *provided* that if the legal final maturity date of the Reference Obligation is amended, the Legal Final Maturity Date shall be such date as amended.

"Moody's" means Moody's Investors Service, Inc. or any successor to its rating business.

"Outstanding Principal Amount" means, as of any date of determination with respect to the Reference Obligation, the outstanding principal balance of the Reference Obligation as of such date, which shall take into account:

(i) all payments of principal;

(ii) all writedowns or applied losses (however described in the Underlying Instruments) resulting in a reduction in the outstanding principal balance of the Reference Obligation (other than as a result of a scheduled or unscheduled payment of principal);

(iii) forgiveness of any amount by the holders of the Reference Obligation pursuant to an amendment to the Underlying Instruments resulting in a reduction in the outstanding principal balance of the Reference Obligation;

(iv) any payments reducing the amount of any reductions described in (ii) and (iii) of this definition; and

(v) any increase in the outstanding principal balance of the Reference Obligation that reflects a reversal of any prior reductions described in (ii) and (iii) of this definition.

For the avoidance of doubt, the Outstanding Principal Amount shall not include any portion of the outstanding principal balance of the Reference Obligation that is attributable to the deferral or capitalization of interest during the Term of this Transaction.

"Overcollateralization Ratio" means, in respect of a Reference Obligation Calculation Period:

(i) if the most recent Servicer Report sets out a ratio representing the ratio of (A) the aggregate asset pool balance securing the payment obligations on the Reference Obligation (subject to certain adjustments as described in the Underlying Instruments) to (B) the Pari Passu Amount *plus* the Senior Amount, then such ratio; or

(ii) if the ratio cannot be determined under (i) but the most recent Servicer Report for one or more senior Related Obligations (if any) sets out such a ratio, then a ratio equal to the ratio of (A) the product of (1) such ratio determined with respect to the senior Related Obligation ranking closest in priority of payment to the Reference Obligation for which such a ratio is set out, and (2) the aggregate outstanding principal balance of such Related Obligation and any other Related Obligations ranking in priority of payment either *pari passu* with or senior to such Related Obligation to (B) the sum of the Pari Passu Amount *plus* the Senior Amount with respect to such Reference Obligation; or

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(iii) if the ratio cannot be determined under (ii) but the most recent Servicer Report for one or more junior Related Obligations (if any) sets out such a ratio, then a ratio equal to the ratio of (A) the product of (1) such ratio determined with respect to the junior Related Obligation ranking closest in priority of payment to the Reference Obligation for which such a ratio is set out, and (2) the aggregate outstanding principal balance of such Related Obligation and any other Related Obligations ranking in priority of payment either *pari passu* with or senior to such Related Obligation (including the Reference Obligation) and (B) the sum of the Pari Passu Amount *plus* the Senior Amount with respect to such Reference Obligation; or

(iv) if the ratio cannot be determined under (iii), then a ratio representing the ratio of (A) the aggregate asset pool balance securing the payment obligations under the Reference Obligation to (B) the Pari Passu Amount *plus* the Senior Amount.

"Pari Passu Amount" means, as of any date of determination, the aggregate of the Outstanding Principal Amount of the Reference Obligation and the aggregate outstanding principal balance of all obligations of the Reference Entity secured by the Underlying Assets and ranking *pari passu* in priority with the Reference Obligation.

"PIK-able" means, in relation to a Reference Obligation, that the Underlying Instruments include provisions that provide for capitalization or deferral of interest on such Reference Obligation.

"Previous Period Implied Writedown Amount" means, in respect of a Reference Obligation Calculation Period, the Current Period Implied Writedown Amount as determined in relation to the last day of the immediately preceding Reference Obligation Calculation Period.

"Principal Payment" means, with respect to any Reference Obligation Payment Date, the occurrence of a payment of an amount to the holders of the Reference Obligation in respect of principal (scheduled or unscheduled) in respect of the Reference Obligation other than a payment in respect of principal representing capitalized interest, excluding, for the avoidance of doubt, any Writedown Reimbursement or Interest Shortfall Reimbursement.

"Principal Payment Amount" means, with respect to any Reference Obligation Payment Date, an amount equal to the product of (i) the amount of any Principal Payment on such date and (ii) the Applicable Percentage.

"Principal Shortfall Amount" means, in respect of a Failure to Pay Principal, an amount equal to the greater of:

(I) zero; and

(II) the amount equal to the product of:

(A) the Expected Principal Amount *minus* the Actual Principal Amount;

(B) the Applicable Percentage; and

(C) the Reference Price.

If the Principal Shortfall Amount would be greater than the Reference Obligation Notional Amount immediately prior to the occurrence of such Failure to Pay Principal, then the Principal Shortfall Amount shall be deemed to be equal to the Reference Obligation Notional Amount at such time.

"Principal Shortfall Reimbursement" means, with respect to any day, the payment by or on behalf of the Issuer of an amount in respect of the Reference Obligation in or toward the satisfaction of any deferral of or failure to pay principal arising from one or more prior occurrences of a Failure to Pay Principal.

"Principal Shortfall Reimbursement Amount" means, with respect to any day, the product of (i) the amount of any Principal Shortfall Reimbursement on such day, (ii) the Applicable Percentage and (iii) the Reference Price.

"Principal Shortfall Reimbursement Payment Amount" means, with respect to an Additional Fixed Amount Payment Date, the sum of the Principal Shortfall Reimbursement Amounts in respect of all Principal Shortfall Reimbursements (if any) made during the Reference Obligation Calculation Period relating to such Additional Fixed Amount Payment Date, *provided* that the aggregate of all Principal Shortfall Reimbursement Payment Amounts at any time shall not exceed the aggregate of all Floating Amounts paid by Seller in respect of occurrences of Failure to Pay Principal prior to such Additional Fixed Amount Payment Date.

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"Rating Agencies" means Fitch, Moody's and Standard & Poor's.

"Reference Obligation Calculation Period" means, with respect to each Reference Obligation Payment Date, a period corresponding to the interest accrual period relating to such Reference Obligation Payment Date pursuant to the Underlying Instruments. For the avoidance of doubt, the first Reference Obligation Calculation Period will begin on the Reference Obligation Payment Date falling on or immediately prior to the Effective Date.

"Reference Obligation Coupon" means the periodic interest rate applied in relation to each Reference Obligation Calculation Period on the related Reference Obligation Payment Date, as determined in accordance with the terms of the Underlying Instruments as at the Effective Date, without regard to any subsequent amendment.

"Reference Obligation Payment Date" means (i) each scheduled distribution date for the Reference Obligation occurring on or after the Effective Date and on or prior to the Scheduled Termination Date, determined in accordance with the Underlying Instruments and (ii) any day after the Effective Maturity Date on which a payment is made in respect of the Reference Obligation.

"Related Obligation" means, in relation to the Reference Obligation, an obligation of the Reference Entity that is also secured by the Underlying Assets but ranks senior or junior to the Reference Obligation in priority of payment. In relation to a Related Obligation, the terms "Servicer", "Servicer Report" and "Underlying Instruments" shall have the meanings set out in this Confirmation but with references in the definitions of those terms to "Reference Obligation" being deemed, solely for this purpose, to be references to the Related Obligation.

"Relevant Amount" means, if a Servicer Report that describes a Principal Payment, Writedown or Writedown Reimbursement (other than a Writedown Reimbursement within paragraph (i) of "Writedown Reimbursement"), in each case that has the effect of decreasing or increasing the interest-accruing principal balance of the Reference Obligation as of a date prior to a Delivery Date but such Servicer Report is delivered to holders of the Reference Obligation or to the Calculation Agent on or after such Delivery Date, an amount equal to the product of (i) the sum of any such Principal Payment (expressed as a positive amount), Writedown (expressed as a positive amount) or Writedown Reimbursement (expressed as a negative amount), as applicable; (ii) the Reference Price; (iii) the Applicable Percentage immediately prior to such Delivery Date; and (iv) the Exercise Percentage.

"Senior Amount" means, as of any day, the aggregate outstanding principal balance of all obligations of the Reference Entity secured by the Underlying Assets and ranking senior in priority to the Reference Obligation.

"Servicer" means any trustee, servicer, sub servicer, master servicer, fiscal agent, paying agent or other similar entity responsible for calculating payment amounts or providing reports in relation to the Reference Obligation pursuant to the Underlying Instruments.

"Servicer Report" means a periodic statement or report regarding the Reference Obligation provided by the Servicer to holders of the Reference Obligation.

"Standard & Poor's" means Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. or any successor to its rating business.

"Underlying Assets" means the assets securing the Reference Obligation for the benefit of the holders of the Reference Obligation and which are expected to generate the cashflows required for the servicing and repayment (in whole or in part) of the Reference Obligation, or the assets to which a holder of such Reference Obligation is economically exposed where such exposure is created synthetically.

"Underlying Instruments" means the indenture, trust agreement, pooling and servicing agreement or other relevant agreement(s) setting forth the terms of the Reference Obligation.

"Writedown" means the occurrence at any time on or after the Effective Date of:

(i) (A) a writedown or applied loss (however described in the Underlying Instruments) resulting in a reduction in the Outstanding Principal Amount (other than as a result of a scheduled or unscheduled payment of principal); or

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(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; or

(iii) if Implied Writedown is applicable and the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) above to occur in respect of the Reference Obligation, an Implied Writedown Amount being determined in respect of the Reference Obligation by the Calculation Agent.

"Writedown Amount" means, with respect to any day, the product of (i) the amount of any Writedown on such day, (ii) the Applicable Percentage and (iii) the Reference Price.

"Writedown Reimbursement" means, with respect to any day, the occurrence of:

(i) a payment by or on behalf of the Issuer of an amount in respect of the Reference Obligation in reduction of any prior Writedowns;

(ii) (A) an increase by or on behalf of the Issuer of the Outstanding Principal Amount of the Reference Obligation to reflect the reversal of any prior Writedowns; or

(B) a decrease in the principal deficiency balance or realized loss amounts (however described in the Underlying Instruments) attributable to the Reference Obligation; or

(iii) if Implied Writedown is applicable and the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (ii) above to occur in respect of the Reference Obligation, an Implied Writedown Reimbursement Amount being determined in respect of the Reference Obligation by the Calculation Agent.

"Writedown Reimbursement Amount" means, with respect to any day, an amount equal to the product of:

(i) the sum of all Writedown Reimbursements on that day;

(ii) the Applicable Percentage; and

(iii) the Reference Price.

"Writedown Reimbursement Payment Amount" means, with respect to an Additional Fixed Amount Payment Date, the sum of the Writedown Reimbursement Amounts in respect of all Writedown Reimbursements (if any) made during the Reference Obligation Calculation Period relating to such Additional Fixed Amount Payment Date, *provided* that the aggregate of all Writedown Reimbursement Payment Amounts at any time shall not exceed the aggregate of all Floating Amounts paid by Seller in respect of Writedowns occurring prior to such Additional Fixed Amount Payment Date.

10. Representations

Each party will be deemed to represent to the other party on the date on which it enters into the Transaction that (absent a written agreement between the parties that expressly imposes affirmative obligations to the contrary for the Transaction):

(a) *Non-Reliance*

It is acting for its own account, and it has made its own independent decisions to enter into the Transaction and as to whether the Transaction is appropriate or proper for it based upon its own judgment and upon advice from such advisers as it has deemed necessary. It is not relying on any communication (written or oral) of the other party as investment advice or as a recommendation to enter into the Transaction; it being understood that information and explanations related to the terms and conditions of the Transaction shall

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not be considered investment advice or a recommendation to enter into the Transaction. No communication (written or oral) received from the other party shall be deemed to be an assurance or guarantee as to the expected results of the Transaction.

(b) *Assessment and Understanding*

It is capable of assessing the merits of and understanding (on its own behalf or through independent professional advice), and understands and accepts, the terms, conditions and risks of the Transaction. It is also capable of assuming, and assumes, the risks of the Transaction.

(c) *Status of Parties*

The other party is not acting as a fiduciary for, or an adviser to it in respect of the Transaction.

Please confirm your agreement to be bound by the terms of the foregoing by executing a copy of this Confirmation and returning it to us by facsimile to:

Attention:	New York Derivatives Documentation
Telephone:	(212) 250-9425
Fax:	(212) 797-0779
Email:	NYderivative.documentation@db.com

Deutsche Bank AG, acting through its London Branch is acting as principal in the Transaction. The time of transaction will be supplied on request. The time of exercise will be supplied on request. Details of arrangements with introducing brokers are available on request.

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This message will be the only form of Confirmation dispatched by us. Please execute and return it to us by facsimile immediately. If you wish to exchange hard copy forms of this Confirmation, please contact us.

Yours faithfully,

DEUTSCHE BANK AG, ACTING THROUGH ITS LONDON BRANCH

By: _____

Name: _____
Title: Authorized Signatory

By: _____

Name: _____
Title: Authorized Signatory

Confirmed as of the date first written above:

Gemstone CDO VIII Ltd.

By: _____

Name: _____

Title: _____

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Interest Shortfall Cap Annex

If Interest Shortfall Cap is applicable, then the following provisions will apply:

Interest Shortfall Cap Basis:	Variable Cap
Interest Shortfall Cap Amount:	If the Interest Shortfall Cap Basis is Fixed Cap, the Interest Shortfall Cap Amount in respect of an Interest Shortfall shall be the Fixed Amount calculated in respect of the Fixed Rate Payer Payment Date immediately following the Reference Obligation Payment Date on which the relevant Interest Shortfall occurred.
	If the Interest Shortfall Cap Basis is Variable Cap, the Interest Shortfall Cap Amount applicable in respect of a Floating Rate Payer Payment Date shall be an amount equal to the product of:
	(a) the sum of the Relevant Rate and the Fixed Rate applicable to the Fixed Rate Payer Calculation Period immediately preceding the Reference Obligation Payment Date on which the relevant Interest Shortfall occurs;
	(b) the amount determined by the Calculation Agent under sub-clause (b) of the definition of "Fixed Amount" in relation to the relevant Fixed Rate Payer Payment Date; and
	(c) the actual number of days in such Fixed Rate Payer Calculation Period *divided* by 360.
Interest Shortfall Compounding:	Applicable
Interest Shortfall Reimbursement Payment Amount:	If Interest Shortfall Cap is applicable, then with respect to the first Additional Fixed Amount Payment Date, zero, and with respect to any subsequent Additional Fixed Amount Payment Date and calculated as of the Reference Obligation Payment Date immediately preceding such Additional Fixed Amount Payment Date, as specified by the Calculation Agent in its notice to the parties or by Seller in its notice to Buyer of the existence of an Interest Shortfall Reimbursement, an amount equal to the greater of:
	(a) zero; and
	(b) the amount equal to:
	(i) the product of:
	(A) the Cumulative Interest Shortfall Payment Amount as of the Additional Fixed Amount Payment Date immediately preceding such Reference Obligation Payment Date; and
	(B) either:
	(3) if Interest Shortfall Compounding is applicable, the relevant Cumulative Interest Shortfall Payment Compounding Factor for the Fixed Rate Payer Calculation Period immediately preceding such Additional Fixed Amount Payment Date (or 1.0 in respect of any Additional Fixed Amount Payment Date occurring after the final Fixed Rate Payer

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	Payment Date); or
	(4) if Interest Shortfall Compounding is not applicable, 1;
	minus
	(ii) the Cumulative Interest Shortfall Amount as of such Reference Obligation Payment Date;
	provided that if the Interest Shortfall Reimbursement Payment Amount on an Additional Fixed Amount Payment Date would exceed the Interest Shortfall Reimbursement Amount in respect of the related Reference Obligation Payment Date, then such Interest Shortfall Reimbursement Payment Amount shall be deemed to be equal to such Interest Shortfall Reimbursement Amount.
Cumulative Interest Shortfall Amount:	With respect to any Reference Obligation Payment Date, an amount equal to the greater of:
	(a) zero; and
	(b) an amount equal to:
	(i) the Cumulative Interest Shortfall Amount as of the Reference Obligation Payment Date immediately preceding such Reference Obligation Payment Date or, in the case of the first Reference Obligation Payment Date, zero; *plus*
	(ii) the Interest Shortfall Amount (if any) in respect of such Reference Obligation Payment Date; *plus*
	(iii) either:
	(A) if Interest Shortfall Compounding is applicable, an amount determined by the Calculation Agent as the amount of interest that would accrue on the Cumulative Interest Shortfall Amount immediately preceding such Reference Obligation Payment Date during the related Reference Obligation Calculation Period pursuant to the Underlying Instruments or, in the case of the first Reference Obligation Payment Date, zero; or
	(B) if Interest Shortfall Compounding is not applicable, 0; *minus*
	(iv) the Interest Shortfall Reimbursement Amount (if any) in respect of such Reference Obligation Payment Date.
	Upon the occurrence of each Delivery, the Cumulative Interest Shortfall Amount shall be *multiplied* by a fraction equal to (a) the Applicable Percentage immediately following such Delivery *divided* by (b) the Applicable Percentage immediately prior to such Delivery; *provided, however*, that if more than one Delivery is made during a Reference Obligation Calculation Period, the Cumulative Interest Shortfall Amount calculated as of the Reference Obligation Payment Date occurring immediately after such Reference Obligation Calculation Period shall be *multiplied* by a fraction equal to (a) the Applicable Percentage immediately following the final Delivery made during such Reference Obligation Calculation Period and (b) the Applicable Percentage immediately

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	prior to the first Delivery made during such Reference Obligation Calculation Period.
Cumulative Interest Shortfall Payment Amount:	The Cumulative Interest Shortfall Payment Amount with respect to any Fixed Rate Payer Payment Date and any Additional Fixed Amount Payment Date falling on such Fixed Rate Payer Payment Date shall be an amount equal to the greater of:
	(a) zero; and
	(b) the amount equal to:
	(i) the sum of:
	(A) the Interest Shortfall Payment Amount for the Reference Obligation Payment Date corresponding to such Fixed Rate Payer Payment Date; and
	(B) the product of:
	(1) the Cumulative Interest Shortfall Payment Amount as of the Fixed Rate Payer Payment Date immediately preceding such Fixed Rate Payer Payment Date (or zero in the case of the first Fixed Rate Payer Payment Date); and
	(2) either:
	(AA) if Interest Shortfall Compounding is applicable, the relevant Cumulative Interest Shortfall Payment Compounding Factor; or
	(BB) if Interest Shortfall Compounding is not applicable, 1;
	minus
	(ii) any Interest Shortfall Reimbursement Payment Amount paid on such Fixed Rate Payer Payment Date.
	With respect to any Additional Fixed Amount Payment Date falling after the final Fixed Rate Payer Payment Date, the Cumulative Interest Shortfall Payment Amount shall be equal to:
	(x) the Cumulative Interest Shortfall Payment Amount as of the Additional Fixed Amount Payment Date immediately preceding such Additional Fixed Amount Payment Date (or as of the final Fixed Rate Payer Payment Date in the case of the first Additional Fixed Amount Payment Date occurring after the final Fixed Rate Payer Payment Date); *minus*
	(y) any Interest Shortfall Reimbursement Payment Amount paid on such Additional Fixed Amount Payment Date.
	Upon the occurrence of each Delivery, the Cumulative Interest Shortfall Payment Amount shall be *multiplied* by a fraction equal to (a) the Applicable Percentage immediately following such Delivery *divided* by (b) the Applicable Percentage immediately prior to such Delivery; *provided, however*, that if more than one

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	Delivery is made during a Reference Obligation Calculation Period, the Cumulative Interest Shortfall Payment Amount calculated as of the Reference Obligation Payment Date occurring immediately after such Reference Obligation Calculation Period shall be *multiplied* by a fraction equal to (a) the Applicable Percentage immediately following the final Delivery made during such Reference Obligation Calculation Period and (b) the Applicable Percentage immediately prior to the first Delivery made during such Reference Obligation Calculation Period.
Cumulative Interest Shortfall Payment Compounding Factor:	With respect to any Fixed Rate Payer Calculation Period, an amount equal to the sum of:
	(a) 1.0;
	plus
	(b) the product of:
	(i) the sum of (A) the Relevant Rate *plus* (B) the Fixed Rate; and
	(ii) the actual number of days in such Fixed Rate Payer Calculation Period *divided* by 360;
	provided, however, that the Cumulative Interest Shortfall Payment Compounding Factor shall be deemed to be 1.0 during the period from but excluding the Effective Maturity Date to and including the Termination Date.
Relevant Rate:	With respect to a Fixed Rate Payer Calculation Period, the Floating Rate, expressed as a decimal number with seven decimal places, that would be determined if:
	(a) the 2000 ISDA Definitions (and not the 2003 ISDA Credit Derivatives Definitions) applied to this paragraph;
	(b) the Fixed Rate Payer Calculation Period were a "Calculation Period" for purposes of such determination; and
	(c) the following terms applied:
	(i) the Floating Rate Option were the Rate Source;
	(ii) the Designated Maturity were the period that corresponds to the usual length of a Fixed Rate Payer Calculation Period; and
	(iii) the Reset Date were the first day of the Calculation Period;
	provided, however, that the Relevant Rate shall be deemed to be zero during the period from but excluding the Effective Maturity Date to and including the Termination Date.
Rate Source:	USD-LIBOR-BBA

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SCHEDULE L

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greglip@bbotg To: fblair@bbotg
cc:
Subject:
11/29/2006
01:30 PM

Message Sent: 11/29/2006 13:30:51
From: GREGLIP@BBOTG|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
To: FBLAIR@BBOTG|FRANCIS BLAIR|DEUTSCHE BANK SECURI|1726|328663

how bout SABR 2005-FR4 B3 =

Reply: =

PIG PROBABLY A 400-525 MARKET =



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660501.318

Greg
Lippmann/NewYork/DBNA/DeuBa@DBAMERICAS

12/01/2006 08:05 PM

To "Tyler Duncan" <TDuncan@wayzpartners.com>@DEUBAINT
cc Jamil Nathoo/NewYork/DBNA/DeuBa@DBAmericas
bcc
Subject Re: FW: Wayzata cob 11-30-06

in general the 2005 have barely moved while the 2006 vintage is collapsing. here is some credit by credit color...note some 2005 that are clean have been squeezed as there is still cdo appet ite for them and there is little to no hedge fund interest in them (at this time)

1. arsi 05-w5 we have not seen this trade since october. but this is a weak name foreclosure % is exploding, less than 1 year old as of oc tober 4.75% f./c or reo (november I'm sure is worse) we traded this on 8/23 at 315, we have it at 375 now

2. emlt 05-1 m9 this is one of the names getting squeezed...it is performing well and no one is shorting it but with 4 months to the reset, it could get interesting. We traded at 225, the mark of 185 is if anything a bit wide to where it would trade.

3. ffml 05-ff4 m8 similar st ory to the emlt...the 05 ffml is perfoming very well while t he 2006 ones have started to widen. we traded at 220 in june, marked at 175 which is reasonable

4. fhlt 05-e m9 t his is a name that is blowing up. horrible performance over 6% in f/c and reo. we traded in august at 260, marking at 450 now

5. mlmi 05-nc1 b3 this is an interesting deal, its from jan 05 so it has paid down alot and the loans are just reset ting, performa ce is not great with 5.5 % f/c oand 4.5 90+ (october numbers) t his bond t raded in comp on nov 17 at 245 so the mark of 225 (versus our 255) trade seems mid m arket to slig htly too t ight given market last two weeks but I think this mark is in the context...this bond will eit her be blowing up or clearly worth par within 6 months

7. nchet 05-d m9 deal performance is bad with nearly 5 % f/c reo less than 1 year in yet we bought protection on this in high 100s on november 16 making the mark of 230 reasonable given moves in last two weeks...i would expect this bond t o widen out much f urther (similar to what we say with fhlt 05-e)

8, ramp 05-efc2 m9 the 2005 ramp efc deals trade extremely well this mark is 10 tighter than where we traded it and is reasonable to wide given recent market action
9. ramp 05-efc3 m9 see above
10. sabr 05-fr4 b3 another freemont blowing up we traded in august at 260, this is marked at 412 and if anyt hing could be a bit wider (ie. I'd show you a 412.5 bid t o unwind it)
11. sast 05-3 b3 saxon is a weak name but is performing ok so far....we traded at 265 and the mark is 210 on 11/22 another hedge fund bought protection in comp at 220 so this mark is solidly in the middle of a slighly wider market than before

all in all your net marks are a bit wider with a few much wider (190, 150 and 60) and the rest slighly to moderately tigher (10,.10,10, 30,40,45,55)...i think things are going as we predicted lit tle to no movement and then a blowup.....I did not look into the vol question only the accuracy of the current marks.

Greg H. Lippmann
Managing Director
Deutsche Bank Securities Inc.
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60 Wall Street
New York, New York 10005
Phone (212) 250-7730
Fax (212) 797-2201
Mobile (917) 601-1916
greg.lippmann@db.com

"Tyler Duncan" <TDuncan@wayzpartners.com>

12/01/2006 05:43 PM

To Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas, Jamil Nathoo/NewYork/DBNA/DeuBa@DBAmericas
cc
Subject FW: Wayzata cob 11-30-06

Permanent Subcommittee on Investigations
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660501.319

These seem a little off – most marks are going against us except three. The FFML 05, NCHET & SAST deals have moved over 2 pts against us since last marks – why is this? I would think we would not have 2-3 pt. swings with fairly extreme volatility. Could you guys review and make sure these make sense to you.

Tyler Duncan
Wayzata Investment Partners, LLC
Direct: 952-345-0709
Mobile: 612-877-1627
Fax: 952-345-8901

From: Leonela Lamaj [mailto:leonela.lamaj@db.com]
Sent: Friday, December 01, 2006 4:20 PM
To: Tyler Duncan
Cc: Jamil Nathoo; Rachel Rode
Subject: Wayzata cob 11-30-06

Please see attached for Nov month end statement.
Apologies on the delay

Leonela Lamaj
Deutsche Bank Securities Inc.

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660501.320

Greg Lippmann/NewYork/DBNA/DeuBa@DBAMERICAS

01/25/2007 02:24 PM

To "Mark Lee" <mlee@contrariancapital.com>
cc
bcc
Subject Re:

No. Sabr is a bad shelf (barclays shelf like db's ace and lehmans sail etc) but they not all bad, sabr fr blows as do many others but sabr 06-opt1 you can buy 25MM inside 300.

Sent from my BlackBerry Handheld.

----- Original Message -----
From: "Mark Lee" [mlee@contrariancapital.com]
Sent: 01/25/2007 02:19 PM
To: Greg Lippmann
Subject: RE:

should I assume all the SABR deals are wide like this.

From: Greg Lippmann [mailto:greg.lippmann@db.com]
Sent: Thursday, January 25, 2007 2:05 PM
To: Mark Lee
Subject: Re:

Talked to my guys, this deal refcently traded near 800. Wmc in general is widening massively so I think wed be 850 or so. Best to look elsewhere. We'll.. Be back with a list soon.

Sent from my BlackBerry Handheld.

----- Original Message -----
From: "Mark Lee" [mlee@contrariancapital.com]
Sent: 01/25/2007 01:44 PM
To: Greg Lippmann
Subject: RE:

where do you think the SABR 2006 WM3 B-3 trades these days?

From: Greg Lippmann [mailto:greg.lippmann@db.com]
Sent: Thursday, January 25, 2007 1:37 PM
To: Mark Lee
Subject: Re:

Understood on impairment just a matter of how much to pay in carry til then. Many of these are going down.

Sent from my BlackBerry Handheld.

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660501.321

----- Original Message -----
From: "Mark Lee" [mlee@contrariancapital.com]
Sent: 01/25/2007 01:34 PM
To: Greg Lippmann
Subject: RE:

We would look at namet 400 to 550. In general we are not looking for spread widening - we are looking for chances of impairment.

From: Greg Lippmann [mailto:greg.lippmann@db.com]
Sent: Thursday, January 25, 2007 1:32 PM
To: Mark Lee
Subject: Re:

Sure. Give me some idea of spread target / shelves / tier. Ie you want weak names trading 550 +, strong names traded 350 or better or the oneswin middle. Note index is roughly 525.

Sent from my BlackBerry Handheld.

----- Original Message -----
From: "Mark Lee" [mlee@contrariancapital.com]
Sent: 01/25/2007 01:29 PM
To: Greg Lippmann

Do you have any suggestion for BBB- bonds we should look at buying protection on?

Mark Lee.
Portfolio Manager
Contrarian Capital
411 West Putnam
Suite 225
Greenwich CT 06830

P: (203) 862-8203
F: (203) 629-1977

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660501.323

Greg Lippmann

To: "Jashin Patel" <jashin.patel@db.com>
cc:
Subject: Where is this pig marked?

11/29/2006
05:17 PM

10mm 35729PHU7 FHLT 2005-A M9 375 last look 382

Sent from my BlackBerry Handheld.

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660501.324



greglip@bbotg To: rokurita@bbotg,jmilman@bbotg
cc:
Subject: PINE MOUNTAIN 3

11/28/2006
08:41 AM

Message Sent: 11/28/2006 08:41:26
From: GREGLIP@BBOTG|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
To: ROKURITA@BBOTG|ROCKY KURITA|DEUTSCHE BANK SECURI|1726|328663
To: JMILMAN@BBOTG|JORDAN MILMAN|DEUTSCHE BANK SECURI|1726|328663

ABFC 2005-WF1 M9 pass
ABSHE 2005-HE4 M9 pass
ACCR 2005-3 M9 pass
ACE 2005-WF1 M9 pass
AMIT 2005-3 M6 pass
CBASS 2004-CB6 B3 pass
CMLTI 2005-OPT4 M9 155
CWL 2005-10 MV9 165
ECR 2005-3 B 285
FFML 2005-FF8 B3 pass
FMIC 2005-2 M9 190
GSAMP 2005-AHL M6 315 this is a pig we shouldnt pass like on ny life
JPMAC 2005-OPT1 M9 pass
MABS 2005-NC2 M9 240 (long sze and huge payment shock coming 6.5gwac 5.=
8 marg)
MLMI 2005-AR1 B3 160
MSAC 2005-HE7 B3 175
NCHET 2005-3 M9 165
OOMLT 2005-4 M9 140
RAMP 2005-EFC3 M9 150
RASC 2005-EMX4 M9 135
SASC 2005-WF2 M9 pass
WFHET 2005-2 M9 pass

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greglip@bbotg
05/19/2006
08:04 AM

To: hiroki.kurita@db.com
cc:
Subject: WE TRADED THAT ACE PIECE O CRAP WITH IKE AT 380 !!

Message Sent: 05/19/2006 09:04:53
From: GREGLIP@BBOTG|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
To: hiroki.kurita@db.com| | |

WE TRADED THAT ACE PIECE O CRAP WITH IKE AT 380 !!



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Danielle Pluthero/NewYork/DBNA/DeuBa@DBAMERICAS

05/29/2007 04:27 PM

To Greg Lippmann/NewYork/DBNA/DeuBa@
cc Stephanie Ruhle/NewYork/DBNA/DeuBa@DBA
bcc
Subject Re: Highfields ~40 cusips for quotes

Greg
Thank you for the feedback. Just went through your color with Farhad. He thought he had screened out most of the bad names so apologies for the freemont.
Let us know if there are any on this list that aren' t too dicey that you think you can provide prices on.
Also if there are any other shelves that look bad let me know outside of the ones mentioned on the call (LBLMT, sail, sgms etc). I don't believe we have a list but i figured given your expertise you may have a few more to mention that Highfields is not aware of. It just helps them delete them from the master list
They are still focused on 400-1000 spread range

Danni

Danielle Pluthero

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danielle.pluthero@db.com

Greg Lippmann/NewYork/DBNA/DeuBa

05/29/2007 03:41 PM

To Danielle Pluthero/NewYork/DBNA/DeuBa@DBAmericas
cc
Subject Re: Highfields ~40 cusips for quotes (Document link: Danielle Pluthero)

i thought i said freemont and wmc are bad here are the ones that fit that below:

00442VAM9 ACE 2006-ASP3 M7 this stinks though i didnt mention it

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before
00442VAN7 ACE 2006-ASP3 M8 ditto
00442VAP2 ACE 2006-ASP3 M9 ditto
00442CAP4 ACE 2006-FM2 M9 FM stands for FREEMONT
040104SF9 ARSI 2006-W2 M9 ARSI is a very bad shelf (I may hnot have
mentioned it)
040104TA9 ARSI 2006-W3 M8 ditto
040104TB7 ARSI 2006-W3 M9ditto
040104TR2 ARSI 2006-W4 M8 ditto
040104TS0 ARSI 2006-W4 M9ditto
04012XAP0 ARSI 2006-W5 M9ditto
07388GAK7 BSABS 2006-3 M7
12666PBD5 CWL 2006-10 MV9
12666TAU0 CWL 2006-11 BV
12667AAN6 CWL 2006-12 B
12667AAM8 CWL 2006-12 M8
126670YS1 CWL 2006-5 B
23242NAL3 CWL 2006-ABC1 M8
126670SY5 CWL 2006-IM1 B
126670SW9 CWL 2006-IM1 M7
126670SX7 CWL 2006-IM1 M8
362334PU2 GSAMP 2006-FM1 B2 FM is freemont
40430MAQ0 HASC 2006-WMC1 M9 WMC is WMC
456606LK6 INABS 2006-B M9 weak name but will try
43709BAQ2 INABS 2006-C M9 ditto
46602WAN4 IXIS 2006-HE2 B3 very very bad deal PASS
57643LPW0 MABS 2006-FRE1 M7 FRE is FREEMONT
57643LPX8 MABS 2006-FRE1 M8 ditto
57643LPY6 MABS 2006-FRE1 M9 ditto
57643GAN7 MABS 2006-FRE2 M8 ditto
57643GAP2 MABS 2006-FRE2 M9 ditto
57644UAQ8 MABS 2006-HE2 M9
57644TAN8 MABS 2006-WMC2 M8 WMC is WMC
57644TAP3 MABS 2006-WMC2 M9 ditto
59020U6Y6 MLMI 2006-WMC2 B3A ditto
59020U6Z3 MLMI 2006-WMC2 B3B ditto
61749GAN2 MSHEL 2006-3 B3
61749QAP5 MSIX 2006-1 B3
64352VRB9 NCHET 2006-1 M9
81375HAG4 SABR 2006-NC1 B1
81375HAH2 SABR 2006-NC1 B2
81375HAJ8 SABR 2006-NC1 B3
86360PAR8 SASC 2006-NC1 M9

Danielle
Pluthero/NewYork/D
BNA/DeuBa

05/29/2007 03:30
PM

To
Greg
Lippmann/NewYork/DBNA/DeuBa@DBAmerica
s
cc
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Jordan
Milman/NewYork/DBNA/DeuBa@DBAmericas,
Stephanie
Ruhle/NewYork/DBNA/DeuBa@DBAmericas
Subject
Highfields ~40 cusips for quotes

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Greg
As promised.
Cusips from your list. Client has tried to avoid issuers you mentioned on the call.

00442VAM9	ACE 2006-ASP3 M7
00442VAN7	ACE 2006-ASP3 M8
00442VAP2	ACE 2006-ASP3 M9
00442CAP4	ACE 2006-FM2 M9
040104SF9	ARSI 2006-W2 M9
040104TA9	ARSI 2006-W3 M8
040104TB7	ARSI 2006-W3 M9
040104TR2	ARSI 2006-W4 M8
040104TS0	ARSI 2006-W4 M9
04012XAP0	ARSI 2006-W5 M9
07388GAK7	BSABS 2006-3 M7
12666PBD5	CWL 2006-10 MV9
12666TAU0	CWL 2006-11 BV
12667AAN6	CWL 2006-12 B
12667AAM8	CWL 2006-12 M8
126670YS1	CWL 2006-5 B
23242NAL3	CWL 2006-ABC1 M8
126670SY5	CWL 2006-IM1 B
126670SW9	CWL 2006-IM1 M7
126670SX7	CWL 2006-IM1 M8
362334PU2	GSAMP 2006-FM1 B2
40430MAQ0	HASC 2006-WMC1 M9
456606LK6	INABS 2006-B M9
43709BAQ2	INABS 2006-C M9
46602WAN4	IXIS 2006-HE2 B3
57643LPW0	MABS 2006-FRE1 M7
57643LPX8	MABS 2006-FRE1 M8
57643LPY6	MABS 2006-FRE1 M9
57643GAN7	MABS 2006-FRE2 M8
57643GAP2	MABS 2006-FRE2 M9
57644UAQ8	MABS 2006-HE2 M9
57644TAN8	MABS 2006-WMC2 M8
57644TAP3	MABS 2006-WMC2 M9
59020U6Y6	MLMI 2006-WMC2 B3A
59020U623	MLMI 2006-WMC2 B3B
61749GAN2	MSHEL 2006-3 B3
61749QAP5	MSIX 2006-1 B3
64352VRB9	NCHET 2006-1 M9
81375HAG4	SABR 2006-NC1 B1
81375HAH2	SABR 2006-NC1 B2
81375HAJ8	SABR 2006-NC1 B3
86360PAR8	SASC 2006-NC1 M9

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[attachment "CUSIPS for DB submitted May 29 07.xls" deleted by Danielle Pluthero/NewYork/DBNA/DeuBa]

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660501.330



GREGLIP@bloomberg.net To BAKERCDB@bloomberg.net
cc
03/02/2007 01:38 PM bcc
Subject

=====Begin Message=====
Message#: 355830
Message Sent: 03/02/2007 13:38:35
From: GREGLIP@bloomberg.net|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
To: BAKERCDB@bloomberg.net|CLARK BAKER|HARBINGER CAPITAL|
|
Subject:

on this call & they are claiming that DB was one of the last
ones to tighten standards on buying loans to securitize. you
were right- ace is crap
Reply:

INDEED...IT IS....BUT I AM NOT CRAP MY FRIEND..1
=====End Message=====

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1410

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660501.331

Footnote Exhibits - Page 2082



JMILMAN@bloomberg.net ToGREGLIP@bloomberg.net
cc
03/19/2007 07:05 PM bcc
Subject

=====Begin Message=====
Message#: 21372
Message Sent: 03/19/2007 18:05:50
From: JMILMAN@bloomberg.net|JORDAN MILMAN|DEUTSCHE BANK SECURI|1726|328663
To: GREGLIP@bloomberg.net|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
Subject:

the ffml 06-ff13 is a piece of crap and would be closer to
1000. .On the phone you told me closer to 400, and even the
message you sent after the fact says between 400-800.
=====End Message=====

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1414

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660501.332



JMILMAN@bloomberg.net To GREGLIP@bloomberg.net
cc
12/01/2006 12:40 PM bcc
Subject

=====Begin Message=====
Message#: 197274
Message Sent: 12/01/2006 12:40:02
From: JMILMAN@bloomberg.net|JORDAN MILMAN|DEUTSCHE BANK SECURI|1726|328663
To: GREGLIP@bloomberg.net|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
Subject:

Bal HOMEQ BWIC TODAY AT 2PM WITH THOUGHTS
10mm ACE 06-HE1 M10 Bal/BBB/BBB 100ppc to call 1250dm 75-14+
Reserve Levels
Apply
I am thinking 60-00, let me know what you think
Reply:

WHAT SPREAD IS THAT....DOENST THIS DEAL BLOW AND WHO IS SELLING?
Reply:

yes it blows I am seeing 20-40%
writedowns
=====End Message=====

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Wall Street & The Financial Crisis
Report Footnote #1418

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660501.333

Footnote Exhibits - Page 2084



"Jason Lowry" <JLowry@hbk.com>

12/19/2006 11:11 AM

To Greg Lippmann/New York/DBNA/DeuBa@DBAmericas, Jordan Milman/New York/DBNA/DeuBa@DBAmericas, Hiroki Kurita/New York/DBNA/DeuBa@DBAmericas, Abhayad Kamat/New York/DBNA/DeuBa@DBAmericas, Sourav Sen/New York/DBNA/DeuBa@DBAmericas, Chehao Lu/New York/DBNA/DeuBa@DBAmericas, Lucy Fagan/db/dbcom@DBAmericas, Sourav Sen/New York/DBNA/DeuBa@DBAmericas, "Rachel Wish" <RWish@hbk.com>, "FixedIncome" <FixedIncome@hbk.com>, Mike Li/db/dbcom@DBAmericas, "ABS" <ABS@hbk.com>

cc

bcc

Subject Purchase for warehouse

We bought 10mm of ACE 06-HE1 M10 (1332 @ 30cpr) at a price of 73.50 from DBS for the warehouse.

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Wall Street & The Financial Crisis
Report Footnote #1419

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660501.334

Footnote Exhibits - Page 2085



JMILMAN@bloomberg.net

12/19/2006 11:27 AM

To GREGLIP@bloomberg.net, CACCIBAL1@bloomberg.net, PMANGIONE@bloomberg.net, FBRETTSC@bloomberg.net, MGINS@bloomberg.net, ROKURITA@bloomberg.net, BWIELE1@bloomberg.net, SOULMAN@bloomberg.net, MAZZACC@bloomberg.net, HFORUSZ@bloomberg.net, HLAWLESS@bloomberg.net, IBOGZA@bloomberg.net, MDESANTIS3@bloomberg.net, CRESMA.MIDB@bloomberg.net

cc

bcc

Subject

```
=====Begin Message=====
Message#: 155353
Message Sent: 12/19/2006 11:27:36
From: JMILMAN@bloomberg.net|JORDAN MILMAN|DEUTSCHE BANK
SECURI|1726|328663
To: GREGLIP@bloomberg.net|GREG LIPPMANN|DEUTSCHE BANK
SECURI|1726|328663
To: CACCIBAL1@bloomberg.net|CON ACCIBAL|DEUTSCHE BANK
SECURI|1726|328663
To: PMANGIONE@bloomberg.net|PAUL MANGIONE|DEUTSCHE BANK
SECURI|1726|328663
To: FBRETTSC@bloomberg.net|FRED BRETTSCHNEIDER|DEUTSCHE BANK
SECURI|1726|328663
To: MGINS@bloomberg.net|MARK GINSBERG|DEUTSCHE BANK
SECURI|1726|328663
To: ROKURITA@bloomberg.net|ROCKY KURITA|DEUTSCHE BANK
SECURI|1726|328663
To: BWIELE1@bloomberg.net|BRIAN WIELE|DEUTSCHE BANK
SECURI|1726|328663
To: SOULMAN@bloomberg.net|MICHAEL SOLBERG|DEUTSCHE BANK
SECURI|1726|439306
To: MAZZACC@bloomberg.net|MICHAEL MAZZACCO|DEUTSCHE BANK
SECURI|1726|328663
To: HFORUSZ@bloomberg.net|HEATH FORUSZ|DEUTSCHE BANK AG,
LO|1726|115008
To: HLAWLESS@bloomberg.net|HEATHER LAWLESS|DEUTSCHE BANK
SECURI|1726|328663
To: IBOGZA@bloomberg.net|ILINCA BOGZA|DEUTSCHE BANK
SECURI|1726|328663
To: MDESANTIS3@bloomberg.net|MARC DESANTIS|DEUTSCHE BANK
SECURI|1726|328663
To: CRESMA.MIDB@bloomberg.net|MARCO CRESTI|DEUTSCHE BANK AG,
LO|1726|115008
Subject:

 SOLD 10mm ACE 06-HE1 M10 THANKS L.
PIKE
=====End Message=====
```

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Wall Street & The Financial Crisis
Report Footnote #1419

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660501.335



greglip@bbotg 04/06/2006 05:54 PM

To: greglip@bbotg
cc:
Subject: CDS TRADE

Message Sent: 04/06/2006 18:54:58
From: GREGLIP@BBOTG|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
To: GREGLIP@BBOTG|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663

Bradley, we just did the following trade, 200MM 20MM each of 10 names wit=
h
another hedge fund. You will see we showed you comparable or better!! let=
s go !
Bond CDS Level

ACCR 2005-2 M8 135.00
CMLTI 2005-OPT4 M8 131.00
FFML 2005-FF7 M8 130.00
FMIC 2005-2 M8 135.00
MSAC 2005-NC2 B2 140.00
MSAC 2005-WMC6 B2 138.00
NCHET 2005-1 M8 138.00
NHEL 2005-3 M8 128.00
SABR 2005-OP2 B2 132.00
SABR 2005-FR4 B2 135.00
=

Bond CDS Level
NHEL 2005-1 B2 130 this bond is BBB+ SP the NHEL 05-3 is A+ SP
LBMLT 2005-2 M8 142 crap name
CARR 2005-FRE1 M8 133
FFML 2005-FF8 B2 127 we traded the ff7 3 wider than this urs A theirs=
BBB+
ACE 2005-RM1 M8 130 good level for high california
JPMAC 2005-OPT1 M8 128 compares to the cmlti 05-opt4 at 131 urs bbb thei=
r bbb+
ACCR 2005-2 M8 130 we showed u 5 tighter than we traded this exact bo=
nd!
SABR 2005-FR2 B2 135 same levels as sabr05-fr4 sam(ish) bond
AMSI 2005-R7 M8 137 crap name
POPLR 2005-D M5 128 tied for as tight as any we traded but this is sp =
bbb and
that one was sp A+



OrgSmtpMsg.eml

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660501.336



greglip@bbotg
06/16/2006 09:18 AM

To: rokurita@bbotg
cc:
Subject: Re: Fwd: *Here is a preliminary ist for julius baer

Message Sent: 06/16/2006 10:18:12
From: GREGLIP@BBOTG|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
To: ROKURITA@BBOTG|ROCKY KURITA|DEUTSCHE BANK SECURI|1726|328663

AND U R THE MAN !!! OK LETS INCLUDE IT AT A VERY WIDE LEVEL AND GET SOMET=
HING
TOGETHER FOR THESE GUYS...
----- Original Message -----
From: ROCKY KURITA, DEUTSCHE BANK SECURI
At: 6/16 10:14:42

we are short that one. all the cwl are bad.
----- Original Message -----
From: GREG LIPPMANN, DEUTSCHE BANK SECURI
At: 6/16 10:12:26

ok if we r shrt it b/c is that the really crap one or is that the 05-3 /?=
maybe
also an 06 cwl....
----- Original Message -----
From: ROCKY KURITA, DEUTSCHE BANK SECURI
At: 6/16 9:42:49

we have a couple new century. how about a cwl 05-4 bv baa3
----- Original Message -----
From: GREG LIPPMANN, DEUTSCHE BANK SECURI
At: 6/16 9:24:56

lets add one other weakish name i.e. cwl, amsi, nchet,heat want to balanc=
e it
out in spread terms more..also after the analysis they want just 10 2005 =
and 10
06 not more....sales is charlotte mcbride but lets run through me for now=
..
----- Original Message -----
From: ROCKY KURITA, DEUTSCHE BANK SECURI
At: 6/16 8:54:22

----- Original Message -----
From: ROCKY KURITA, DEUTSCHE BANK SECURI
At: 6/16 8:54:18

Can we run the numbers? What other stats does the accoutn need? who cover=
s the
account?
1 SASC 2005-NC1 M7
2 SASC 2005-NC1 M8
3 SASC 2005-WF1 M8

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1423

VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 01339 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

660501.337

From: DEUTSCHE ARMS (DEUTSCHE BANK SECURI) <DBARMS@BBOTG>
Sent: Friday, November 17, 2006 8:08 PM
To: JEFFREY LIN (DEUTSCHE BANK SECURI) <JLIN97@BBOTG>; RAJ SHOURIE (DEUTSCHE BANK) <RSHOURIE@BBOTG>; JOSEPH REARDON (DEUTSCHE BANK SECURI) <REARJOS@BBOTG>; JEANMARIE GENIRS (DEUTSCHE BANK SECURI) <JGENIRS1@BBOTG>; ERIK FALK (DEUTSCHE BANK SECURI) <EFALK@BBOTG>; MATTHEW BRAUND (DEUTSCHE BANK SECURI) <MBRAUND@BBOTG>; BRIAN WIELE (DEUTSCHE BANK SECURI) <BWIELE1@BBOTG>; ED RUBIN (DEUTSCHE BANK SECURI) <ERUBIN@BBOTG>; ROCKY KURITA (DEUTSCHE BANK SECURI) <ROKURITA@BBOTG>; PETER GALL (DEUTSCHE BANK AG) <PETERGALL@BBOTG>; MICHAEL COMMAROTO (DEUTSCHE BANK SECURI) <MCOMMARO@BBOTG>; GREG LIPPMANN (DEUTSCHE BANK SECURI) <GREGLIP@BBOTG>; FRED BRETTSCHNEIDER (DEUTSCHE BANK SECURI) <FBRETTSC@BBOTG>; DANIEL SCHAEFFER (DEUTSCHE BANK SECURI) <SCHAEFF@BBOTG>
Subject:

Message Sent: 11/17/2006 16:08:07
From: DBARMS@BBOTG|DEUTSCHE ARMS|DEUTSCHE BANK SECURI|1726|328663
To: JLIN97@BBOTG|JEFFREY LIN|DEUTSCHE BANK SECURI|1726|8423
To: RSHOURIE@BBOTG|RAJ SHOURIE|DEUTSCHE BANK|1726|133100
To: REARJOS@BBOTG|JOSEPH REARDON|DEUTSCHE BANK SECURI|1726|328663
To: JGENIRS1@BBOTG|JEANMARIE GENIRS|DEUTSCHE BANK SECURI|1726|328663
To: EFALK@BBOTG|ERIK FALK|DEUTSCHE BANK SECURI|1726|328663
To: MBRAUND@BBOTG|MATTHEW BRAUND|DEUTSCHE BANK SECURI|1726|509770
To: BWIELE1@BBOTG|BRIAN WIELE|DEUTSCHE BANK SECURI|1726|328663
To: ERUBIN@BBOTG|ED RUBIN|DEUTSCHE BANK SECURI|1726|328663
To: ROKURITA@BBOTG|ROCKY KURITA|DEUTSCHE BANK SECURI|1726|328663
To: PETERGALL@BBOTG|PETER GALL|DEUTSCHE BANK AG|1726|334122
To: MCOMMARO@BBOTG|MICHAEL COMMAROTO|DEUTSCHE BANK SECURI|1726|328663
To: GREGLIP@BBOTG|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
To: FBRETTSC@BBOTG|FRED BRETTSCHNEIDER|DEUTSCHE BANK SECURI|1726|328663
To: SCHAEFF@BBOTG|DANIEL SCHAEFFER|DEUTSCHE BANK SECURI|1726|328663

THE ARMS DESK WOULD LIKE TO EXPRESS ITS SINCERE APPRECIATION TO THE SALES FORCE FOR AN OUTSTANDING JOB IN HELPING US PLACE THE BONDS OFF DBALT 06-AR6. THANKS A LOT!!

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1425

VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 01340 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

660501.338

From: DEUTSCHE ARMS (DEUTSCHE BANK SECURI) <DBARMS@BBOTG>

Sent: Tuesday, November 14, 2006 12:16 AM

To: HEATHER DAUR (DEUTSCHE BANK SECURI) <HDAUR1@BBOTG>; JEFFREY LIN (DEUTSCHE BANK SECURI) <JLIN97@BBOTG>; RAJ SHOURIE (DEUTSCHE BANK) <RSHOURIE@BBOTG>; JOSEPH REARDON (DEUTSCHE BANK SECURI) <REARJOS@BBOTG>; JEANMARIE GENIRS (DEUTSCHE BANK SECURI) <JGENIRS1@BBOTG>; ERIK FALK (DEUTSCHE BANK SECURI) <EFALK@BBOTG>; MATTHEW BRAUND (DEUTSCHE BANK SECURI) <MBRAUND@BBOTG>; BRIAN WIELE (DEUTSCHE BANK SECURI) <BWIELE1@BBOTG>; ED RUBIN (DEUTSCHE BANK SECURI) <ERUBIN@BBOTG>; ROCKY KURITA (DEUTSCHE BANK SECURI) <ROKURITA@BBOTG>; PETER GALL (DEUTSCHE BANK AG) <PETERGALL@BBOTG>; MICHAEL COMMAROTO (DEUTSCHE BANK SECURI) <MCOMMARO@BBOTG>; GREG LIPPMANN (DEUTSCHE BANK SECURI) <GREGLIP@BBOTG>; FRED BRETTSCHNEIDER (DEUTSCHE BANK SECURI) <FBRETTSC@BBOTG>

Subject:

Message Sent: 11/13/2006 20:16:25
From: DBARMS@BBOTG|DEUTSCHE ARMS|DEUTSCHE BANK SECURI|1726|328663
To: HDAUR1@BBOTG|HEATHER DAUR|DEUTSCHE BANK SECURI|1726|328663
To: JLIN97@BBOTG|JEFFREY LIN|DEUTSCHE BANK SECURI|1726|8423
To: RSHOURIE@BBOTG|RAJ SHOURIE|DEUTSCHE BANK|1726|133100
To: REARJOS@BBOTG|JOSEPH REARDON|DEUTSCHE BANK SECURI|1726|328663
To: JGENIRS1@BBOTG|JEANMARIE GENIRS|DEUTSCHE BANK SECURI|1726|328663
To: EFALK@BBOTG|ERIK FALK|DEUTSCHE BANK SECURI|1726|328663
To: MBRAUND@BBOTG|MATTHEW BRAUND|DEUTSCHE BANK SECURI|1726|509770
To: BWIELE1@BBOTG|BRIAN WIELE|DEUTSCHE BANK SECURI|1726|328663
To: ERUBIN@BBOTG|ED RUBIN|DEUTSCHE BANK SECURI|1726|328663
To: ROKURITA@BBOTG|ROCKY KURITA|DEUTSCHE BANK SECURI|1726|328663
To: PETERGALL@BBOTG|PETER GALL|DEUTSCHE BANK AG|1726|334122
To: MCOMMARO@BBOTG|MICHAEL COMMAROTO|DEUTSCHE BANK SECURI|1726|328663
To: GREGLIP@BBOTG|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
To: FBRETTSC@BBOTG|FRED BRETTSCHNEIDER|DEUTSCHE BANK SECURI|1726|328663

DBALT 06-AR6: Expected Losses based on prelim RA feedback
S&P: 0.60%
Moodys: 1.10%

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Wall Street & The Financial Crisis
Report Footnote #1425

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660501.339

From: LARRY PIKE (DEUTSCHE BANK SECURI) <LMPIKE@BBOTG>
Sent: Wednesday, November 29, 2006 9:21 PM
To: ELEANNY PICHARDO (DEUTSCHE BANK SECURI) <ELEANNYP@BBOTG>; ALEXANDER MALDONADO (DEUTSCHE BANK SECURI) <AMALDONADO1@BBOTG>; ANUPAMA CHAKRAVARTTI (DEUTSCHE BANK SECURI) <ACHAKRAVARTT@BBOTG>
Subject: Some success in CMO land today:

Message Sent: 11/29/2006 17:21:40
From: LMPIKE@BBOTG|LARRY PIKE|DEUTSCHE BANK SECURI|1726|192220
To: ELEANNYP@BBOTG|ELEANNY PICHARDO|DEUTSCHE BANK SECURI|1726|328663
To: AMALDONADO1@BBOTG|ALEXANDER MALDONADO|DEUTSCHE BANK SECURI|1726|328663
To: ACHAKRAVARTT@BBOTG|ANUPAMA CHAKRAVARTTI|DEUTSCHE BANK SECURI|1726|328663
Forwarded To: ELEANNY PICHARDO, DEUTSCHE BANK SECURI By: SEAN WHELAN, DEUTSCHE BAN
Forwarded To: ALEXANDER MALDONADO, DEUTSCHE BANK SECURI By: SEAN WHELAN, DEUTSCHE
Forwarded To: ANUPAMA CHAKRAVARTTI, DEUTSCHE BANK SECURI By: MICHAEL JONES, DEUTSC

Some success in CMO land today:

Sold 9mm DBALT 06-AR6 M10 (Ba2/BBB-) to HBK
This class was never sold in the new issue marketing.

Sold 9.5mm CWALT 06-6CB 2A4 (NAS) to NIR Capital.

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Wall Street & The Financial Crisis
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VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 01342 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

660501.340

From: Jason Lowry
Sent: Thursday, November 30, 2006 11:32:03 AM
To: Abhayad Kamat; Sourav Sen; Chehao Lu; 'lucy.fagan@db.com'[lucy.fagan@db.com]; Sourav Sen; Rachel Wish; FixedIncome; 'Mike.Li@db.com'[Mike.Li@db.com]; ABS
Subject: Details on DBALT trade

Approved by wharehouse:

DB sells to HBK 8.997mm (+- variance) DBALT 06-AR6 M10 +775 $84-22 (yield table to follow) settles 12/29 with 14 days accrued.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1427

GEM7-00005480

From: AXEL KUNDE (DEUTSCHE BANK AG, LO) <KUNDAX.LNDB@BBOTG>
Sent: Thursday, July 6, 2006 7:38 PM
To: GREG LIPPMANN (DEUTSCHE BANK SECURI) <GREGLIP@BBOTG>
Subject:

Message Sent: 07/06/2006 15:38:33
From: KUNDAX.LNDB@BBOTG|AXEL KUNDE|DEUTSCHE BANK AG, LO|1726|115008
To: GREGLIP@BBOTG|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663

He is in Lisbon. But maybe you can meet him in Barcelona.
OK...HAPPY TO DO THE CALL IF U WANT OR U CAN INTRODUCE ME TO HIM
ON M ONDAY...UR CALL..but unfortunately he is not - like many
other European guys. If you tell the sales guy the bond is reall
y bad his investor will use that as an argument against us and
demand that we buy back his note, because he trusted DB to pick
a good portfolio etc, etc. That's why I chose to say much of
the widening was due to general tiering in the market. And yes,
while this bond is underperforming there are still 49 other
bonds in the portfolio that trade in the normal range: All
other Baa2s are market between 100 and 160, and all Baa3
between 205 and 280 (LBMLT 2005-11). SURE I CAN DO THAT...ANY C
HANCE WE CAN BUY PROTECTION FROM HIM ON THE VERY BOND AT 225 TO

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Report Footnote #1428

VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 01344 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

660501.342

Chehao
Lu/NewYork/DBNA/DeuBa@DBAMERICAS

01/25/2007 12:41 PM

To Abhayad
Kamat/NewYork/DBNA/DeuBa@DBAmericas
cc Ilince R
Bogza/NewYork/DBNA/DeuBa@DBAmericas
bcc
Subject G7 - HEAT and LBMLT

Shelf	amt	% of total	count
LBMLT	79,500,000	7.22%	9
HEAT	106,250,000	9.65%	13

(updated w/ the 3 new trades recently, which included 1 of LBMLT and 1 of HEAT.....)

Che Lu
Global CDO Group
Deutsche Bank Securities Inc.
212-250-7801

Abhayad
Kamat/NewYork/DBNA/DeuBa

01/25/2007 11:51
AM

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1430

VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 01345 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

660501.343

To

Chehao

Lu/NewYork/DBNA/DeuBa

cc

Subject

Fw:

Fw:

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VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 01346 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

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send ilinca and me the $ of HEAT and long beach (LBMLT i think) in gemstone 7 pool -- also

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660501.345

include assets with long beach as originator or servicer. thanks.

Abhayad Kamat
Global CDO Group
Deutsche Bank Securities Inc.
60 Wall Street, 19th Floor,
New York, NY 10005-2858
(212) 250-0526 work
(917) 519-9694 cell
(732) 578-2890 fax
----- Forwarded by Abhayad Kamat/NewYork/DBNA/DeuBa on 01/25/2007 11:49 AM -----

Ilinca R
Bogza/NewYork/DBNA/DeuBa@DBAMERICAS

01/25/2007 11:47
AM

To

Abhayad
Kamat/NewYork/DBNA/DeuBa@DBAmericas@DBAMERICAS@DEUBAINT

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cc

Subject

Re:

Fw:

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No. These meetings are general overviews.. Only 2 accounts might buy his deal. I said I would send port via email.
Can u tell me percentage of these 2? They are not in the marketing book.

From: Abhayad Kamat
Sent: 01/25/2007 11:44 AM
To: Ilinca Bogza
Subject: Re: FW:

tell this to kevin and ask if he will consider reducing some of the contentious assets. did

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you get pushback on specific assets in your meetings?

Ilinca R
Bogza/NewYork/DBNA/DeuBa@DBAMERICAS

01/25/2007 11:40
AM

To

"Abhayad Kamat"
<Abhayad.Kamat@db.com>

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cc

Subject

Fw:

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VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 01352 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

660501.350

From: Casey Newell
Sent: 01/25/2007 11:33 AM
To: Ilinca R Bogza/NewYork/DBNA/DeuBa@DBAmericas@DBAMERICAS@DEUBAINT
Subject: Re:

Yes, they don't like the deal. Collaterall pool has too many Long !each and Heat names.

From: Ilinca R Bogza
Sent: 01/25/2007 10:31 AM
To: Casey Newell

Any feedback from [Redacted] on hbk deal?

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FEBRUARY 5, 2007

Call between Sean Whelan and Alex Craig

MTP 00011

ALEX: Hey Sean.

SEAN: Hey Bro, how are you?

ALEX: I'm good. How are you doing?

SEAN: I'm good man. You've been out of the office a little bit there, my man.

ALEX: No. I've been here.

SEAN: You kidding, I've tried getting you like a few times man.

ALEX: We were on our ski trip and then I called you, thinking you were out at ABX.

SEAN: I was at AFS my friend.

ALEX: And then I was at AFS, whatever, I'm sorry.

SEAN: Cool.

ALEX: And then I was out of the office on Friday.

SEAN: There we go. See I was trying. How's everything going?

ALEX: Everything is okay. Everything is okay.

SEAN: Good.

ALEX: How about with you?

SEAN: Everything is just fine.

ALEX: Peachy keen?

SEAN: Oh they certainly are just going, just fine. Alright. What's happening there bro.

ALEX: I called you on Gemstone.

SEAN Yeah, we're going to launch that bad boy on Wednesday.

ALEX: Okay.

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SEAN: And also we are probably, we may structure in some AAA mezz.

ALEX: Okay. Well that's what I was calling you about.

SEAN: Okay. Now let's pull something up. Now I'm going to listen or when you're ready for me to talk, we'll go in like the little Alex and Sean cooperation thing.

ALEX: Okay. I'm ready, I'm ready to listen.

SEAN: No and I'm totally serious. Alright. Here's the gig right. I hope you've read this stuff. Have you?

ALEX: Yes.

SEAN: Okay. I do recommend that you go, like let's say you're going to buy this deal, I actually want you to set up – and I sent you a couple of research pieces talking about the questions to ask and what to do look at in CDO.

ALEX: Yep, I have that.

SEAN: It won't be good if I go to that meeting with you and I'm the mouthpiece. Right, like it's got to be you guys. They're not hard. You can prepare like 15 questions that you want to ask, you know, like and you show me what they are. I may actually take a series of questions and I have a guy who's extremely strong in CDO's, he issues them and he's buys them. And like he gave me questions and he buys every Gemstone deal by the way. Like for all the reasons you should, he does. But if you want to buy deals you need to meet the manager.

ALEX: Right.

SEAN: And you're going to get conversant with when they go in and they tell you like Alex, we own the bottom. This is like a financing trade for us. You know what I mean. And we're in the – so they're still in all the credit, right. You obviously want a guy like that working for you rather than, you know, buying this _____ like a fucking deal from GSC, right, where they don't buy any equity. Right.

ALEX: I'm with you.

SEAN: Okay. So we're going to launch this deal on Wednesday. And we're looking at creating Junior AAAs that will come out in the 45 area.

ALEX: Okay.

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SEAN: Now what can happen off this, like if you, you would never buy bonds higher. Like you would never drive in a deal higher. If you indicate early, like Gemstone deals go very well, and this deal will all go very well and it will get oversubscribed. If I bring you in early and firm, you're going to get bonds, and you're going to get what you want. Now if you're a 25 bond buyer, I'll still get you that. If you're a 50 or a 75 or 100, that's better.

ALEX: Yeah well how big do you think the mezz is going to be?

SEAN: Well, I was looking before. I was looking at the full size of the AAAs, right. What do we think that was. It was big. It's a billion dollar deal.

ALEX: It's 793.

SEAN: Right. Those were the AAAs?

ALEX: Yep.

SEAN: Right. So it's going to be pretty big. Let me check. Can I put you on hold for a second?

ALEX: Absolutely.

SEAN: Okay. Alex?

ALEX: Yep.

SEAN: And I don't have the firm numbers but typically you have like a 65 kind of 35 split. Something like that.

ALEX: Alright.

SEAN: So, you know, if we add 800 million AAAs, we'll have like 700 something, right?

ALEX: Let's do the math.

SEAN: Now what I'm saying is in the total AAA size I'm paging through, I should have – yeah we –

ALEX: Yeah you said like 275-ish.

SEAN: Yeah.

ALEX: Okay.

SEAN: And that's, you know, I'll be much - I'll give you a much better feel, but you know it's going to be a, you know, 250 to 300 million.

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ALEX: Okay. We'll take the whole thing.

SEAN: Now what would you take?

ALEX: Uh, we'll probably take 50.

SEAN: Okay.

ALEX: I've got to talk to Adam about this obviously.

SEAN: Okay.

ALEX: And I would like to speak with the manager.

SEAN: Alright.

ALEX: Do you want us to leave a call tomorrow?

SEAN: Umm, do you, do you, alright I'll do what you want.

ALEX: Or we could go over, I don't care. It doesn't bother me.

SEAN: I think, I think -

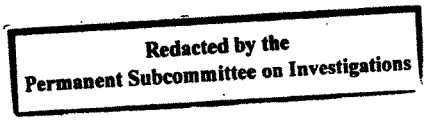
ALEX:

SEAN:

ALEX:

SEAN:

ALEX:



SEAN:

ALEX:

SEAN:

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ALEX: **Redacted by the Permanent Subcommittee on Investigations**

SEAN: Do you want to see HBK tomorrow?

ALEX: Well yes, that's what I'm saying.

SEAN: Okay. I'm going to ask to see them in the afternoon.

ALEX: Okay. Wide open. I have a meeting that never happens at 10:00 a.m. with your buddy boy.

SEAN: Okay.

ALEX: And I'm good. So anytime in the afternoon would be great. It's my inaugural manager meeting and deal, if it happens.

SEAN: Well I'm going to be honest with you. I'm happy that you happen to mention this to me and that I had this deal coming. Because quite honestly it will all go well. And we don't want you to stub your toe.

ALEX: I agree. I was hoping a good thing.

SEAN: So. Alright bro. I have made a request.

ALEX: Umm, I'm going to be leaving her in like a half hour.

SEAN: Don't worry I'm going to get them to see you tomorrow afternoon.

ALEX: All day tomorrow and tomorrow morning you and me will talk about HBK if you want, in the morning, the deal.

SEAN: The truth is we don't like – did you read these market fees?

ALEX: Yeah, there's not much to talk about.

SEAN: Well you know what you want to see, okay -

ALEX: I want to see some stresses, but you know possibly but the deal well -

SEAN: In a credit report. You want to see what they're doing. And you know what you could ask them. We had a portfolio and I sent you a market with this deal, I gave the marketing piece and portfolio, and what you should do is pick a BBB minus, right, and you say could you tell me this write up and tell me about the deal. Do you know what I mean?

ALEX: Okay.

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SEAN: And then quite honestly, they could like talk a lot of shit with you and you wouldn't know it but they won't do that. They'll start talking to you about what stresses they run and everything else and then you would_____ it and that's, you know, this is a great way to get involved and honestly if you need me to help you with Adam with it or whatever else I can do, for all the right reasons, especially the fact that they like own the whole bottom and they've been doing it for a very long time. It's a _____ and that's a cool thing.

ALEX: Okay.

SEAN: Alright bro?

ALEX: Alright cool.

SEAN: I will, I will be calling you then tomorrow to tell you that I have this all arranged.

ALEX: Great. So I should wear a very nice looking tie.

SEAN: You're always fucking nice and neat dude.

ALEX: Alright.

SEAN:

ALEX:

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SEAN:

ALEX:

SEAN:

ALEX:

SEAN:

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FEBRUARY 6, 2007

Call between Alex Craig, Sean Whelan, and David Borchard regarding initial meeting with HBK

MTP 00012

SEAN: How are you?

ALEX: Good.

SEAN:

ALEX:

SEAN:

ALEX:

SEAN:

ALEX:

SEAN:

ALEX:

SEAN:

ALEX: So I'm just going to go and say that I read your deal I think I read through you..,tell me about yourself. I read through – I'm sure they must have read through this "Deutsche Bank: Managing the Manager's Suggested Questions." Am I right?

SEAN: Ask them anyway.

ALEX: I think that their presentation is tailored to some of these questions. So I'm just going to go through the whole thing and say what other questions should I be asking and then let's look at one or two of the BBB-.

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Wall Street & The Financial Crisis
Report Footnote #1436

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SEAN: Ask them also in there – and I don't know if this is in our document or not. I want you to like look if they show you, ask them to just pull up the portfolio of an existing deal right?

ALEX: I have one.

SEAN: And say how do you do due diligence on this? What is your monthly tracking system? Because honestly, you are going to see that technologically they are going to access that bond, it's how they do their constant maintenance on the market and the truth is Alex, also ask them because they are selling synthetics. Talk to them about how they feel about tracking vintages to do synthetic trades because what is going on up there is like HBK. They make enormous technological investments and what they do is they're tracking the performance of like every fucking bond out there. They are getting trustee reports. Ask them how they are getting those updates. And they are loading them up so how do they come up with lists that they want to do some BS on. That's how. You know what I mean? They're actually surveilling pretty much the whole market. All right. I'm fucking proud of you taking your step in the right direction. Talk to your boy. Of course, he steers your wrong.

ALEX: We'll see.

SEAN: Now Dave Borchard.

ALEX: He's on the phone listening to this.

SEAN: Hey, Dave what do you want to get from me, dude? I'll get you everything.

DAVE: Yeah, just whatever _____. I didn't see this deal before so...

SEAN: Oh, you know why because I specifically sent it to him while we were having a conversation. You get all my Bloombergs though right?

DAVE: Yeah.

SEAN: Okay, cool. Anytime in the future I will add you and by the way as we speak. Dave you're listening in I don't know. I would never have anything unkind to say about you. But it could fucking happen.

DAVE: The second you were going to say something nasty I would have reminded you.

SEAN: De borchard right?

DAVE: That's right.

SEAN: Okay, cool. I'll just anytime I email Alex anything. Are you going to this thing too Dave?

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[redacted] = Redacted by the Permanent Subcommittee on Investigations

DAVE: Yeah.

SEAN: Good. And honestly I think this is like for both of you, you don't spend a lot of time in credit and this is a – like HBK there are several guys that I would recommend that you look at like deals from. This was like a layup. And it would have been my #1 pick, and we're happy to be doing a deal for him. Of course, don't tell Kevin Jenks that. He's the head portfolio manager. He's a bit fucking cocky but you know, other than that.

DAVE: The headquarters would be located in Dallas right?

SEAN: Yeah. These guys have always been in New York.

DAVE: Okay.

SEAN: They hired Jenks. He was like out in Oregon or some shit working for like a money manager out there. And they probably brought him back, like I don't know, maybe five years ago and the guy he has working for him Marco is a – you know the guys are very smart guys. And I'm not sure, I think that a lot of the technological fire power is down in Houston, because like in terms of all their modeling and everything – they have some pretty sophisticated model – and like Kevin doesn't build them now he works with them on them but you know in terms of forecasting like observing performance and forecasting losses and stuff like that they actually are a sophisticated player. All right.

DAVE: Okay, thanks.

SEAN: [redacted]

DAVE:

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EXHIBIT #1 Page 2111
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Original document retained in the Subcommittee files.

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DB Contact	Institution	Contact	$Low	$Hit	LOI	$Orders	Pricing	Tranche/Thick	Allocation	Comments
Heather Daur	CSFB									Bought last deal. 75mm. Spoke to sales. Will send info. Could be a prob. They only invest in short paper. tim wilson had been looking at it, he is on vacation now...i wil l check...don't think he was too impressed by the fact that we w ould not put a bid on the old gemstone...just fyi..
B. Rogers	swiss re									would care at 20-21 not at 17dm. Jenks is ok with 20.OUT. Anthony and I just had a call with SwissRe regarding HBK. Unfortunately, due to the subprime market exposure, there is not attachment point or pricing level that would work for them.
A. Palmer	UBS		0	0	0	0				Sent info. UBS seems interested but they might have size constraints -- sales coverage mentioned their expected size to be around $300m.
P. Binks	BGI		0	0	0	0				I just got off the phone with Sami. He said it's Jeff Hilton in credit's call and it's on the 'razor's edge'. Sami has been pushing him for an answer but Jeff says he needs more time to think about it. It seems he's not comfortable with the rating agency correlation assumptions (Sami told him to use whatever he wants and run it himself) and he says he wants more time to think about the interest rate risk component some more. It sounds like we may not have a definitive answer until Monday. I wish I had more positive news. outr 2 much HBKexposure. cant get their arms around ABS risk in market
A. Jain	UBS			0	0	0				Sent info. Initial feedback from UBS Prop is that the 27.9% non-investment grade bucket, is much higher than what they have looked at/bought. They are doing their work on the deal, but even though a number of the BB's are First Franklin, a fair amount of the BB's are '06 vintage, which is worrisome to them.
M. Raber	NAB		0	0	0	0				stopped buying CDOS for the moment. Will be back in the 2nd quarter.t hey need to buy some more abs at the moment

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DB Contact	Institution	Contact	Low	High	NOI	Order	Pricing	Floating/Fixed	Allocation	Comments
B. Rogers	MBIA			0	0	0				Sent info. MBIA might be interested in Gemstone 7 -- i had a prelim call with David Crowle, if meeting with Jenks goes well at ASF, he said they might be in the CDO, subject to the following: - MBIA needs their strict control rights -- in case of manager termination for "cause", liquidation rights in case of EOD and such... he is sending over a copy of an OM from a recent HG deal (HARP) that they did. - they might need coverage tests in the principal waterfall, but this is a threshold issue - they might push back on concentration limits and the 5% ABX bucket that Jenks wants he gave some color on where they have been attaching in mezz deals: - sequential pay with coverage tests in intr and prin waterfalls -- low 30s - sequential pay without coverage tests - low 40s - pronata pay - high 40s `MBIA is not a sure bet as of now. in fact the vibe I got at ASF is that they are a resonably long way from getting there on G7. OUT. 2 many BBS
	SAI			0	0	0				came in on Aas
K. Quinn	West LB		0	0	0	0				Had a meeting in Lisbon. NY will work on this. Ilinca - wlb ny shot down gemstone...avoiding 2006 vintage deals at this point due to very negative view on 2006 collateral...showed to brightwater too so will get color there...Kevin
A. Palmer	FGIC		0	0	0	0				Had a great meeting at ASF. They are still uncomfortable with the '06 vintage collateral. They do like the manager and would like to arrange a diligence to get their credit risk people comfortable with HBK. They are passing on Gemstone 7 but would like to see Gemstone 8, especially if Gemstone 8 has a short bucket.

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DB Contact	Institution	Contact	Low	High	IOI	Order	Pricing	Floating/Fixed	Allocation	Comments
Alex Giannou	Public Sector Pension		0	0	0	0				considering ABS CDO SS. They probably won't get there in the 1st quarter and are working on getting their systems up to speed so that they can trade this
M. Freilich	CQS		0	0	0	0				Out of market. No longer buying
T. Freeland	MS Prin		0	0	0	0				Sent info. hard to get excited about managed ss with a 28% bb bucket given the last several trades we've done.
R. Oswell	New Bond Street									OUT on this deal. Does not like BB exposure
J. Oesteich	DZ Bank									DZ wont participate in the deal - the investment team likes the deal and the manager - their credit comittee is a bit cautious atm for BBB/BB investments and did not want to make a fast decisioin (they were aware of it for a long time but are German)
A. Dacosta / P g	Columbia Management		0	0	0	0				No feedback yet 1/22. spoke with them today and they are not interested !! he said it is not something that he has bought in the past and the longest WAL that he could buy in any type of size would be 3yrs max.. their Enhanced Cash fund has been losing cash for past 45 days and they are not buyers right now.. they very infrequently buy CDO's.. hopefully this changes but thats feedback-
T. Oyagi										All acccounts not buying mezz abs cdo
R. Oswell	HVB - London		20	20	15	15	at 35		15	He spoke to account 4/12. Could look at the deal. Waiting for feeddback. Will most likley be 20mm. They have asked about oveerlap analysis on the deal Spoke to sales 4/24. They are still doing their work on the deal. Told sales that we are looking to price friday. needs a priced portfolio. FIRM.
O. Chebli	GIB				30	20	45		20	As good as firm on this tranche. Will be able to firm up by Monday
J. Nathoo	Vero Capital									LOOKING.
D. Ludlow	ML Bank									OUT

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DB Contact	Institution	Contact	Low	High	IOI	Order	Pricing	Floating/Fixed	Allocation	Comments
J. Nathoo	Vertical									
M. Freilich	ABN									
T. Freeland	Rabo				0	0				Had a conference call with Rabo. Told trev we are potemtially creating a junior AAA. Would also looked at wrapped AAAs. Told them junior AAA level would be L+45 area. Does not like amount of BBS in the portfolio
T. Freeland	Princeton									would consider junior aaas
M. Yencken	ING Australia		0	0	0					OUT. >They invested in gemstone 4. This deal is to close to the last one
M. Freilich	WinCap			0	0	0				Will take a look but already have a lot of exposure to them. Prob no. does not like BB exposure and focused on other things now. May look. Does not like the performance of the previous deals
G. Eagan	Wharton			0	0					Do not have room in their cdo foir aaa's
M. Mccann										Asked if any accounts would have interes in this deal. Waiting to hear back
B Stammer										
M. George	Fortis Bank		20	30	20	0				Would have interest. Waiting for analysis. Account has analysis. Waiting for feedback. Sales does not think this structure will be a problem for them. Told them 32 dm. They would put this in a bamk portfolio. With a junior AAA still below them this could work. He will finish work by friday. Could still care. They are going to comitee next week for the deal. Will come back on Wed to firm up. OUT. They need more subordination for a second pay on this deal./ Prob 10% more for 20mm bonds
O. Chebli	GIB				25	25	at 39			They could more their order from the junior AAAs into the class a-2 but need a spread of 39 on the class a-2
P. Martin	Canadian conduits									only have two non-S+P ratings based investors..one a pension fund and the other an ins co...neither is comfortable with the underlying.. although relative to corp underlying spreads with their attendant ratings migration/default/recovery risks, the secutitized space with nothing more than extension risk, is far more attractively priced..

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DB Contact	Institution	Contact	Low	High	IOI	Order	Pricing	Floating/Fixed	Allocation	Comments
J. McCormick	Commerzbank		0	0	0	0				They are more focused on trading the underlhying themselves
J. McCormick	B&B		0	0	0	0				Account out of office this week. Waiting for feedback. OUT on this deal. They did not invest in the last deal either. Sales will follow up with them on the new structure. They have been shown new structure. They still will not come in on this deal
S. Ruhle	DA Capital									
Anupama	Trainer									
R. Creswell	RBS			0	0	0				Do not like HBK. Spread to tight for them at 35ddm
Jamil	KBC									Out of the office this week
M. George	BS			0	0	0				60% prob. Not looking for Class A-2 tranches. They are looking for junior aaas spread 45-50
O. Chebli	GIB		40	50	0	0	at 40ish spread			Looking at AAAs or A's. Put in for the Class A-3. His cost of funding is at 30dm. They are looking at the class A-2 and trying to move credit approval from A-3 to A-2. OUT. They care more on the Class A-3 because their RAROC would be lower on the Class A-2.
Nupe	Bof A			0	0	0	@34-35			Woul.d care at 34-35. Told her 34/35 would not work and would entertain 32ish. Showed new structure. Would look at a 3 yeat+ average life 1st pay in low 30s dm. 2nd pay is not going to work
D. Ludlow	ACA			0						They would take unfunded at 9-11 and would need to get a funder.. Told them that this would be low prob on the HBK AAA's
R. Creswell	RBC			0						Not a buyer of mezz
M. Freilich	Cheyne			0						Not buying mezz abs cdo
M. Freilich	Gordian			0						Not buying mezz abs cdo
D. Ludlow	Stanfield			0						that they have been avoiding Mezz deals all year if they would look they would play in a deal that has super senior and mezz AAA(they buy super senior). The talk of 30 was also to tight for them. lest 35 on the super senior piece. OUT. They saw the A-2 structure and can not invest
W. Yip	Canadian conduits			0	0	0				showing out 4/10. Start traded at 43dm. Accounts do not like the amount of BBs in the portfolio

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DB Contact	Institution	Contact	Low	High	IOI	Order	Price/Z%	Floating/Fixed	Allocation	Comments
H. Jaggi	AIG									
C. Lithander	Danske Supermarket			0	0	0				Dansk Supermarked is allready full on line, they hold 10% of portfolio with HBK as manager and cannot take more.
C. Lithander	OKO Bank									
T. Freeland										Has an account that wants a wrap.
T. Freeland	Rabo		0	0	0	0				Had a conference call with Rabo. Told trev we are potentially creating a junior AAA. Would also looked at wrapped AAAs. Told them junior AAA level would be L+ 45 area. Does not like the amount of BBs in the portfolio. Can not use CIFG as a funder.
T. Freeland	MBIA		0	0	0	0				Does not like the mezz rmbs market. They are looking at start deal and prefer that. They do not like the portfolio of the HBK deal
M. George	IKB			0	0	0				They are looking at the portfolio. Trying to schedule a meeting with jenks and IKB. Does not want to take the BB risk in the deal
M. Freilich	HSBC			0	0	0				Looking. They need 20% subordination on the deal. OUT. Concerned about asset class
R. Oswell	Citi		0	0						Only looking at CLOs. They buy ABS deals on their own. They do not want to pay for a manager to do what they can already do
R. Allard	Ambac									they won't be at 6 bps (probably not even 8 bps). They are currently looking at CLO squared deals where they are netting 20bps so unfortunately Ambac are not an option
R. Allard	CIFG									Waiting for feedback. Would look at this deal if the synthetic bucket is 20% and the subordination is 45-50%
R. Allard	FSA									FSA are struggling to get there on the modelling for these deals, fyi they struggled with collateral on START which was Baa2 so it is highly unlikely they could get anywhere close on this trade given the collateral quality. They have recently updated me t
R. Allard	Radian									do not have the asset class approved yet.
R. Allard	Assured									Assured do not look at ABS deal period.
R. Allard	MBIA monoline		0	0	0					No. structure to aggressive for them
	Total									

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			Class A-2 159,000,000 L+ 0.47% area Aaa/AAA								
			64% 102	119% 190	124% 197	100% 159			100% 159.0		
DB Contact	Institution	Contact	Low	High	IOI	Order	Pricing	Floating/Fixed	Allocation	%	Comments
D. Ludlow	NIB		30	40	30	30	at 46		30	100.00%	Had a call with account. Looking. Did not request analysis on the deal. Know the manager well. Had a call with ludlow. Conveyed they would get only 1/2 tranche. 15mm is what it is .. Account ok with that allocation. FILLED FOR 30MM AT 47DNM
M. George	IKB		30	70	87	87	at 46		87	100.00%	Put in an order. They want at least 1/2. bit would buy at 45. told them we will give them min 30min. FILLED AT 47DM FOR 87DM
S. Whelan	M&T Bank		42	80	80	42	45 AREA		42	100.00%	ioi. Had a meeting with HBK 2/7 . Meeting went very well. Put in an IOI after that. FIRM. No analysis needed. FILLED FOR 42 AT 47. gave allocation already
M. Freilich	CQS				0	0					Out of market. No longer buying
D. Ludlow	Sailfish				20						IOI .. 45 and 50dm care. Out. They want wider

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Class B
96,900,000
L+0.68%
Aa2/AA

			77%	121%	100%	67%			100%	
			75	117	97	65			96.9	
DB Contact	Institution	Contact	Low	High	IOI	Order	Pricing	Floating/Fixed	Allocation	Comments
S. Whelan	M&T		40	40	40	40	AT TALK		40	Had a meeting with account 2/7/. Meeting went well. PUT in an IOI right after that. Firm at 68
D. Ludlow	NIB		5	10	5	5	at 60		5	Sent materials. Invested in last deal. Call scheduled with the manager. Looking at junior AAAs would care wider . Told them was coming at 68dm. Only want 5.
S Whelan	Wachovia		10	10	20	20	at 68 area		20	Sent materials. Invested in last deal. Looking. Requested sources and uses on the deal. Wants 2045 maturity then will come into the deal. We can change the maturity to 2045. TOLD THEM 68DM ON AAS AND 275 ON A'S
	HBK								31.9	
Nabeel	GIB		10	15	10		at 65			Spoke to sales 2/20.. Waiting to hear back. Wil let know us know in am.. WILL COME BACK TODAY TO FIRM UP. TOLD THEM THEY WERE COMING AT 68DM. Will know tomorrow. High prob given call with manager they will come in. Have been chasig sales. Have not heard back from them yet
L. Pike	NIR			15	0	0				Sent materials. Invested in last deal. NIR is doing the initial work on the HBK deal. He might have some questions that he'd want to chat with Kevin about (collateral oriented). He'll probably ask for that shortly. If they approve the deal, his interest is in the 15mm area for the class B (Aa2). He'd actually prefer a Aa3 class if it gets restructured. Accont is back from the travelling. They are going to focus on this deal now. Focused elsewhere this week/ Not focused on Gemstone. Told them we have 15mm AAs

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DB Contact	Institution	Contact	Low	High	IOI	Order	Pricing	Floating Pricing	Allocation	Comments
J. Dineen	Wharton		0	12	12					Sent materials. Invested in last deal. Wharton (Phil Todd) HBK initial feedback with work continuing: "not fantastic" as regards to his delinquency score vs. the Countrywide "Alpha Mezz" deal also in the market at this time however, he likes HBK as a manager and intends to continue to review the deal. His initial scoring consists of loading delinquency data and comparing it to his expected loss curves. His system ranks lowest scores as better to higher and the HBK deal has a 1.52 score vs. the Countrywide deal having a 1.19 score. Still, this relative under performance is not a knock out and he continues to do his work. OUT. They do not like the collateral. looking again. Doing the work 2/14. NOT GOING TO GET WORK DONT TODAY.. NEEDS MORE TIME. They will come back to us on monday. OUT. they are having issues with their cdo. out. NEEDS a payment date in may because of their first pay on their deal
R. Creswell	RBS		0	0	0	0				Sent materials. Invested in last deal. Wharton (Phil Todd) HBK initial feedback with work continuing: "not fantastic" as regards to his delinquency score vs. the Countrywide "Alpha Mezz" deal also in the market at this time however, he likes HBK as a manager and intends to continue to review the deal. His initial scoring consists of loading delinquency data and comparing it to his expected loss curves. His system ranks lowest scores as better to higher and the HBK deal has a 1.52 score vs. the Countrywide deal having a 1.19 score. Still, this relative under performance is not a knock out and he continues to do his work. OUT. They do not like the collateral. looking again. Doing the work 2/14. NOT GOING TO GET WORK DONT TODAY.. NEEDS MORE TIME. They will come back to us on monday. OUT. they are having issues with their cdo. out. NEEDS a payment date in may because of their first pay on their deal. OUT. dont like the big discount on the equity
R. Creswell	Cheyne									looking at A's now
H. Jaggi	Koch		10	15	10		at 60			told them deal is coming at 60dm. And AAAs at 28 area. No feedback
M. George	BSAM									WOULD CARE ONN THE As

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DB Contact	Institution	Contact	Low	High	IOI	Order	Pricing	Floating/Fixed	Allocation	Comments
E. Santini	CSAM			0	0	0				Sent materials. Invested in last deal. OUT. They have been buying deals wider and don't have that much money to spend
C. Delcol	MFS		0	0	0	0				They don't like BBS in the portfolio
M George	IKB		10	10	10		at 55			Sent materials. Invested in last deal. Wants only junior AAAs. OUT
T. Freeland	RABO		0	0	0	0				Sent portfolio. OUT. Too many BBs
J. Dineen	Chotin		0	0	0	0				Sent materials. Invested in last deal. Will look at the deal next week. OUT. 28% below IG
p. Downes	Highland		0	0	0	0				ramping up a high grade cdo. DB said not to a deal for them. They will not look at this deal
R. Creswell	Prytania		0	0	0	0				Met HBK at ASF. Waiting for feeback. Would have needed more time to do analysis on the deal
R Creswell	Cairn		0	0	0	0				Sent info. Bought gemstone 2. OUT. They don't have AA money to put to work
S, Ma	SLAM		0	0	0	0				Sent materials. Invested in last deal. Account not ramping
C. Newll	Allstate		0	0	0	0				Sent info. Had a meeting in Vegas. Waiting for feeback. OUT. They have 2 many deals in front of them at the moment
J. Longstaf	B&B		0	0	0	0				Sent materials
R. Rode	Dynamic		0	0	0	0				
Nupe	Blackrock		0	0	0	0				Sent info. They don't like the portfolio that much
R. Oswell	HVB		0	0	0	0				Invested in other HBK deals in the past. Sent info. They don't like amount of BBs in the pool
J. Longstaff	B&B		0	0	0	0				the issue is that new cash deals are competing with 05/06 synthetics. This week they traded away 15+m in Cairn, Pinem, and Carrington - all CDS (we weren't the covers).
M. Braund	Redwood Trust		0	0	0	0				Gemstone and RWT... even tho Andy like the manager, it doesnt look like they are going to be comfortable with the amount of BB exposure in there. obviously with the FORE and DELINQ #s being printed they are fairly gunshy here.
W. Yip	Elliot		0	0	0	0				Could have small interest in Aas. Would be a backbid
S. Whelan	Petra Capital		0	0	0	0				Sent materials. Invested in last deal. NO feedback
S. Friede	Security Benefit		0	0	0	0				Sent materials. Would look at the AAAs
M. Yenncken	ING AUS		0	0	0	0				OUT on this deal. They don't have time to analyze
D. Ludlow	ML Bank		0	0	0	0				Pass due to high BB bucket
J. Denning	TCW		0	0	0	0				Sent info. Bought gemstone 2. put in for BBBS

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DB Contact	Institution	Contact	Low	High	IOI	Order	Pricing	Floating/Fixed	Allocation	Comments
J. Reardon	Sailfish			15	0	0				would be at 60dm. Could prob get them to meet us 1/2 way., OUT on the deal. They don't like the collateral
E. Pichardo	Terwin		0	0	0	0				BB is too high for them. Seeing deals with similar spreads and better warf
J. Nathoo	Etrade		0	0	0	0				Concerned about the BB bucket
J. Nathoo	Delaware		0	0	0	0				Concerned about the BB bucket
K Higgins	Seneca		0	0	0	0				Sent info. Pass. Too many BBs in the portfolio
H. Jaggi	UBS									Does not like BBs in portfolio
G. Downey	Vanderbilt									Does not like BBs in portfolio
J. Reardon	Solent		0	0	0	0				Legal limit is 8/2045. Weary of the BB bicket. Wil continute to do work on the deal. unfortunately even without their final collateral runs, the deal has not passed credit..they aren't fans of the BB bucket and the barbell nature of some of the collateral makes them uncomfortable. We won't need the confi and they will not need their runs.
D. Ludlow	Aca		0	0	0	0				Sent materials. Invested in last deal. Loooking at A's and BBBs.
	Total									

0

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Class C
68,300,000
L+2.25%
A2/A

			54%	68%	59%	44%				100%	
			37	46.5	40	30				68.3	
DB Contact	Institution	Contact	Low	High	IOI	Order		Pricing	Floating/Fixed	Allocation	#	Comments
D. Ludlow	ACA		10	10	10	10		97.03%		10		285 at a discount firm
S Whelan	Wachovia		20	20	20	20		97.03%		20		Sent materials. Invested in last deal. Looking. Requested sources and uses on the deal. Wants 2045 maturity then will come into the deal. TOLD THEM 275. WAITING TO FIRM UP. 285 firm at a discont dollar
	HBK									38.3		
Nabeel	[redacted]			10	10							cant give an order today. They want 10mm Aas or 10mm A's. cant get back to us today. Tomorrow 2/22. Have not heard back from them yet
R. Creswell	[redacted]											requested analysis .. Looking
G. Kane	Fisher Francis			6.5				at 300-325				looking for As at 200 area. They are in the process of getting the confi signed. Really not too keen to sign confi. Knows of 3 deals at priced at 300-325. told them to proceed with their work.Still no signed confi... But i have her doing the work on the portfolio, so we dont continue to lose time... I have a call into her already this morning to figure out where she stands and to make sure she knows T III is out there. out. they dont like the portfolio
S. Ma	DBS				20							Will hear back on Monday from account. Migh care at 340dm. Has been shown another deal. As at 450. Told her cant do 450. Would they look at 400? Working on it at 400
S. Ma	UOB			10								will maybe care at 400. Out. They are seeing deals wider
S. Ma	Woori				20	0	0					concered about BBs. Will hear back Monday. Sibmitted it to head of investment today and rejected because of BB bucket

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DB Contact	Institution	Contact	Low	High	IOI	Order	#	Pricing	Floating/Fixed	Allocation	Comments
S. Friede	Cuna		5	10	0	0	0				concern about vintage. OUT. 31.4$ subprime Baa3 or lower does not believe A's can hold its rating
P. Brownsey	ING NZ				2	0	0				OUT. 2 much exposure to HBK
P. Brownsey	NZFM		2	2	2	0	0	at talk			don't like size of clo bucket
R. Rode	IVY		4	7.5	4	0	0				They have more interest in As. Sent info. Invested in last deal. Looking at BBBS. OUT. Warehouse blocked. Gave 2 part reason. UBS synthetic axe to sell BBB paper gemstone 6 750 synthetically
M. George	BSAM				36.3	0	0	at 350 dm			bought CBASS deal. Showing this deal to them. COULD GET THEM TO 340 manager will not sell the As wider than print. OUT. Index is collapsing
C. Delcol	Cambridge				0	0	0				Sent portfolio and information 2/12. OUT. They do not like the portfolio
J. Dineen	Wharton			12	12	0	0				OUT on As . Would only want Aas
E. Santini	CSAM			10	0	0	0				OUT. Going to work on deal synthetically. Wider spreads
M. Zuurmond	Faxtor			12	0	0	0				Sent book. Invested in last deal. Requested analysis on the deal.Will def like the deal . We have decided not to invest in this transact the following:High exposure to lower tiered originators: Fre Beach (7%), we also do not like fixed exposure in mezz cdo Finally, we do not like the Q3/4 06 production, which is about 25% in this pool, with about 8% in the BB bucket. Also, almost 5% is BB Fremont and some other like AMSI 05 has substantial DQs
L. Pike	Harding				0	0	0				might care. Requested strats on the deal. OUT. BB bucket too big
C. Keller	Omnicron			8	0	0					Looking. They will come back tomorrow 2/14. OUT. BB bucket is 2 high
A. Lahiri	SLAM			0	0	0	0				Not ramping up a cdo at the moment
L. Minkus	Lowes			0	0	0	0				Sent info. Invested in last deal. Not buying CDOs at the moment..
W. Yip	Paramax			0	0	0	0				Sent info. OUT. They are buying deals synthetically
C. Newell	Smith Breeden			0	0	0	0				Sent info. Invested in last deal. Out. They do not want HEAT and Long Beach exposure
G. Eagan	Wharton			0	0	0	0				Sent info. OUT.Does not like collateral

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DB Contact	Institution	Contact	Low	High	IOI	Order		Pricing	Floating/Fixed	Allocation		Comments
S. Whelan	GSC			0	0	0	0					OUT. Only buying synthetics
M. George	IKB			0	0	0	0					interested. OUT. Wants junior AAAs
J. Dineen	Maxim			0	0	0	0					OUT. They think spread is too low given where synthetics are trading. Would be in 200 handle
J. Dineen	JPIM			0	0	0	0					OUT. They think spread is too low given where synthetics are trading. Would be in 200 handle
	Total											

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Footnote Exhibits - Page 2126

Class D
55,100,000
L+4.75% AREA
Baa2/BBB

DB Contact	Institution	Contact	Low	High	IOI	Order	Pricing	Floating/Fixed	Allocation		Comments
			53% 29	128% 70.5	34% 19	34% 19			0% 0		
P. Binks	Commerzbank		15	15	15	15	at 550			15	Sent book. Invested in last deal.not sure how much appetite she has for his deal. Jenks called account. They are looking. To do 15 want a discount. Would take 10mm at 500. Will offer 25 bps concession from manager on 15mm. WILL SELL AT 550. Need to give them a 550 discount dollar price
J. Denning	TCW		4	4	4	4	at TALK			4	Sent book. Invested in last deal. They will look and possibly participate 1/22. Account has all they need at the moment. Would be in Dutch Hill CDO
	HBK									36.1	
M. Freilich	Investec										requested information. Account would like to set up a call with manager. Told them DB owns 5mm BBBS and 10mm Aas
S. Ma	OCDG		10	20							will hear back on Monday
M. George	Marathon										Sent book. Invested in last deal
R. Creswell	Cheyne										sent info. No feedback. She said BBB also on a call
R. Creswell	Prytania										Will look
R. Parekh	DB Zwirn										ramping a mezz abs cdo. No feedback. Requested sources and uses and portfolio
Francisco Diaz	La Caixa		10	20	0	0					Met in Lisbon. Really impressed with Jenks. Would take max 2 months. Would like DB to hold these bonds for them. They want to do their best to get approval for ABS. Would maybe buy in the secondary. Out. They do not have approval for ABS and do not want to spend the time for this analysis
P. Brownsey	ING NZ		3	4	4	0					Sent book. Invested in last deal. OUT. Wil prob come in for Aas
R. Rode	IVY		4	7.5	0	0	0				will look. They needupdated runs. Meed curent line items on the portfolio. Out. Their warehouse said
A, Jain	UBS										Axed to buy protection on deals in the secondary. Not necessarily hbk deals but all deals

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DB Contact	Institution	Contact	Low	High	IOI	Order	Pricing	Floating/Fixed	Allocation		Comments
C. Keller	Uniqua			5	0	0					Looking. They will come back tomorrow 2/14. Still looking at the deal. Will not be able to get back to us until 2/20. out. Don't like collateral
A. Maldonado	CDC IXIS		0	0	0	0					Sent book. Invested in last deal. Requested information. Redoing their systems. Will know in a day or 2. OUT. They do not like the portfolio. It was not 5 or 6 names .
M. Zuurmond	Faxtor										Sent book. Invested in last deal. Requested analysis on the deal.Will def like the deal . We have decided not to invest in this transact the following:High exposure to lower tiered originators: Fre Beach (7%), we also do not like fixed exposure in mezz cdo Finally, we do not like the Q3/4 06 production, which is about 25% in this pool, with about 8% in the BB bucket. Also, almost 5% is BB Fremont and some other like AMSI 05 has substantial DQs
Nabeel	Samba		0	0	0	0					Had a call with manager. Call went well. Looking at BBBs and BBs. Thinks it is low prob they are coming in.
j. Duffy	Fortis		0	0	0	0					Sent information on deal.OUT. 2 many BBs in the portfolio
C. Keller	Omnicron		0	0	0	0					Looking. They will come back tomorrow 2/14. BB bucket is too high
C. Newell	Peleton		0	0	0	0					lookig for information on gemstone 2. They want to short the deal
R. Creswell	CPM		0	0	0	0					Sent book. Invested in last deal. OUT. They want to see where the market goes. Not worth getting involved in market movemet
K. Gitelson	Cohen		0	0	0	0					Tough to get their focus. There is only one person that is running the CDO platform
P. Brownsey	QIC			10	0	0					Has interest. Trying to set up a meeting with this account. More of an equity account
G. Seeger	Putnam		0	0	0	0					sent info. No feedback. LOOKING AT DEAL. They are trying to price their deal and waiting to see where things settle down. Bought gemstone deal for their last prior deal
Nabeel	GIB		0	0	0	0					
Andre	Frankfurt trust		0	0	0	0					account resigned

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DB Contact	Institution	Contact	Low	High	IOI	Order	Pricing	Floating/Fixed	Allocation		Comments
D. L udlow	ACA		5	5	0	0	at 400				subject to credit and talk. Mentioned they are seeing deals at 200 and 400 (camber). Denied by warehouse
H. Jaggi	Halcyon		10	15		0					Sent book. Invested in last deal. Might be out of the deal. Like static deals. Would likely invest if we make deal 2 yr reinvestment. Has a lot of gemstone paper.
S Beck	Graham Capital			0	0	0					Low prob account.
J. McCormick	IST		0	0	0	0					they very much liked HBK, and were wowed by the technical abilities of Halcyon. They are probably still a little too negative on Home Eq to take BBBs which is the only place they can invest at present. They are trying to establish an off balnce sheet CP conduit whereby the can invest in senior debt in which case they would definitely buy HBK and Halcyon.
C. Newell	Smith Breeden			5	0	0					Sent book. Invested in last deal. Would know today or tomorrow on the deal. OUT. Does not like HEAT and long beach beach exposure. DB needs to set up a acall.
C. Walter	State Street		0	0	0	0					Does not like jenks
M. Freilich	Wincap		0	0	0	0					Wont invest. They think 06 collarteral is dodgy. Sent book. LOOKING TO BUY OLDER DEALS
	Total										

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Footnote Exhibits - Page 2129

Class E
18,700,000
L+8.00%
Ba1/BB+

DB Contact	Institution	Contact	Low	High	IOI	Order	Pricing	Floating/Fixed	Allocation		Comments
			0% 0	27% 5	0% 0	0% 0			0% 0		
R. Creswell	CPM			5							Sent info. Looking. Spoke to them at the conference and they are keen
R. Creswell	Cheyne										All in return of 17 for BB.. Can take the whole piece if need be. Account on roadshow this week
Nabeel	Samba										had a call with manager. Call went well. They are looking at BBBs and BBs. Low prob. Don't like vintage

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From: Jamiel Akhtar <jakhtar@hbk.com>
Sent: Thursday, October 5, 2006 2:42 PM (GMT)
To: Jon Mosle <JMosle@hbk.com>; MD <MD@hbk.com>
Subject: RE: Investment manager slots

We gave the underwriting mandate for Gemstone VII to DB. Including this deal, the score is DB 5, Lehman 3. Given our current view of DB as a counterparty (go to the counterparty relations sharepoint site (http://team/MC/CR/default.aspx) if you don't know the details), I wasn't thrilled about giving them the mandate. However, given the unusual requirement of transferring our bonds off of our balance sheet onto the underwriter's balance sheet prior to their transfer to the warehouse facility that our accounts have imposed upon us, DB is our best bet for good execution. As a condition for receiving the underwriting mandate, Kevin and I insisted that DB buy from us the $13.1mm of BB rated CDO liabilities HBK retained on its own books from Gemstone IV and V. This was a fairly sharp-elbowed tactic on our part, as the BB bonds are the worst part of the capital structure, but I feel like we should be sharp-elbowed with DB right now.

From: Jon Mosle
Sent: Friday, September 29, 2006 8:42 AM
To: MD
Subject: FW: Investment manager slots

Approved unanimously (except Baker)

From: Jon Mosle
Sent: Thursday, September 28, 2006 1:26 PM
To: MD
Subject: FW: Investment manager slots

Please use voting buttons. If you want to discuss (which we could do at the next MC meeting or earlier), vote "no" and let me know that's what you want. So far, Jamiel, Kevin and Larry have approved.

From: Jamiel Akhtar
Sent: Tuesday, September 26, 2006 2:39 PM
To: Investment Committee
Cc: Jon Mosle
Subject: Investment manager slots

We have 14 investment manager slots. We are currently using three for our feeders (one of which frees up when the Offshope BP feeder is done away with) and seven for our existing CDOs. That leaves four current open slots, with one more opening up on Jan 1 2008 [redacted]. David has indicated that he would like to have access to two slots for [redacted]. That leaves two spots open. Based on the performance of our first two CDOs, I would expect to call them in Dec '07 and May '08 respectively. The slots free back up one year after they are called. Although the other deals are performing well, it's too early to estimate call dates for them.

Today - 4 open slots
1/01/08 - 1 more slot frees up on 1 yr anniversary of [redacted]
12/01/08 - 1 more slot frees up on 1 yr anniversary of likely call of Gemstone I
5/01/09 - 1 more slot frees up on 1 yr anniversary of likely call of Sandstone I

We have enough good collateral to open a warehouse facility for our 8th CDO. **My question to the IC is may I have one of the four remaining slots, or do you think we are better served by having at least four open slots for other deals, new funds, etc?**

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Wall Street & The Financial Crisis
Report Footnote #1440

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660501.380

Michael Lamont/NewYork/DBNA/DeuBa@DBAMERICAS

02/08/2007 10:14 AM

To Abhayad Kamat/NewYork/DBNA/DeuBa@DBAmericas
cc Ilinca R Bogza/NewYork/DBNA/DeuBa@DBAmericas
bcc
Subject Re: gemstone 4 and 5 BBs

no problem, that is part of the risk we took when we were awarded the mandate and we are still making a nice all in fee

below is it $1.55 mm of loss in excess of our current mark or from where we bought it from Kevin?

regardless we need to sell it now while we still can

Abhayad Kamat/NewYork/DBNA/DeuBa

02/08/2007 10:09 AM

To

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1441

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660501.381

Ilinca R Bogza/NewYork/DBNA/DeuBa@DBNA, Michael Lamont/NewYork/DBNA/DeuBa@DBAmericas

cc

Subject

Re: gemstone 4 and 5 BBs(Document link: Michael Lamont)

if we sell it at 1000, we will take a loss of ~$1.55m from where we bought it from Jenks -- Ilinca said we are already marking it at 1000...

Gemstone 7 fees are at $7m (slightly over) -- i guess we are doing a deal for him for 50bps...

Footnote Exhibits - Page 2134

Abhayad
Kamat/NewYork/DBNA/DeuBa

02/08/2007 10:06
AM

To

Michael
Lamont

cc

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DBSI_PSI_EMAIL040452:

Footnote Exhibits - Page 2135

Ilinca R
Bogza/NewYork/DBNA/DeuBa@DBNA@DEUBAINT

Subject

gemstone 4 and 5

BBs

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660501.385

jenks not interested. told him that we will try to blow it out within next few days -- he is ok with that as long as it is not blasted out to everyone so as not to affect his current deal in the market.

Abhayad Kamat
Global CDO Group
Deutsche Bank Securities Inc.
60 Wall Street, 19th Floor,
New York, NY 10005-2858
(212) 250-0526 work
(917) [redacted] cell
(732) 578-2890 fax

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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660501.386



"Kevin Jenks" <kjenks@hbk.com>

02/27/2007 10:32 AM

To Abhayad Kamat/NewYork/DBNA/DeuBa@DBAmericas
cc
bcc
Subject RE: Gemstone 4/5 BBs

We are also trying to reduce exposure, I don't understand why I should take those bonds for your promise just to do the job you were hired to. Especially when I will lose money on those bonds as well. I will only give levels on the bb's when we are out of the other risk

-----Original Message-----
From: Abhayad Kamat
Sent: Tuesday, February 27, 2007 9:59 AM
To: Kevin Jenks
Subject: RE: Gemstone 4/5 BBs

Kevin,
that doesn't work for us... we are trying to reduce our exposure right now given internal very senior mgmt review of our business... pls call when you get a chance.. i tried but got voicemail.
as we have done in the past, we will continue to work on the gemstone 7 unsold tranches and get those done... might take 1-2 months...

"Kevin Jenks" <kjenks@hbk.com>

02/27/2007 09:41 AM

To

Abhayad Kamat/NewYork/DBNA/DeuBa@DBAmericas

cc

Subject

RE: Gemstone 4/5 BBs

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Permanent Subcommittee on Investigations
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660501.387

We would like to wait until we sell the rest of our deal. Unless you want to take them down on swap

-----Original Message-----
From: Abhayad Kamat
Sent: Tuesday, February 27, 2007 9:37 AM
To: Kevin Jenks
Subject: Gemstone 4/5 BBs

did you finish this analysis?

Abhayad Kamat
Global CDO Group
Deutsche Bank Securities Inc.
60 Wall Street, 19th Floor,
New York, NY 10005-2858
(212) 250-0526 work
(917) [redacted] cell
(732) 578-2890 fax

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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660501.388

From: Michael Lamont
Sent: Tuesday, January 9, 2007 05:00:49 PM
To: Kevin Jenks
Subject: Re: Hello

they were great, hope yours were as well

we are focused on this as well. we dont have a deal in the market and you will be first.

"Kevin Jenks" <kjenks@hbk.com>
01/09/2007 04:56 PM

To
Michael Lamont/NewYork/DBNA/DeuBa@DBAmericas
cc

Subject
Hello

With this market this way and probably going to get worse we would like really move on the cdo. Please allocate the resources to expedite this. Thanks. Hope your holidays were well.

—

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660501.389

Footnote Exhibits - Page 2140

Jordan Milman/NewYork/DBNA/DeuBa@DBAMERICAS

02/09/2007 03:00 PM

To "Ashley Bonilla" <ABonilla@hbk.com>@DEUBAINT
cc Abhayad Kamat/NewYork/DBNA/DeuBa@DBAmericas, Chehao Lu/NewYork/DBNA/DeuBa@DBAmericas, Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas, Lucy Fagan/db/dbcom@DBAmericas, Mike Li/db/dbcom@DBAmericas, Sourav Sen/NewYork/DBNA/DeuBa@DBAmericas
bcc
Subject RE: Warehouse Approval request

approved

"Ashley Bonilla" <ABonilla@hbk.com>

02/09/2007 02:54 PM

To Jordan Milman/NewYork/DBNA/DeuBa@DBAmericas, Abhayad Kamat/NewYork/DBNA/DeuBa@DBAmericas, Sourav Sen/NewYork/DBNA/DeuBa@DBAmericas, Chehao Lu/NewYork/DBNA/DeuBa@DBAmericas, Lucy Fagan/db/dbcom@DBAmericas, Sourav Sen/NewYork/DBNA/DeuBa@DBAmericas, Mike Li/db/dbcom@DBAmericas, Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas

cc

Subject RE: Warehouse Approval request

Was this approved for Gem 7?

Ashley Bonilla
HBK Capital Management

ABonilla@HBK.com 214-758-6462

From: Jason Lowry
Sent: Wednesday, February 07, 2007 3:09 PM
To: Jordan Milman; Abhayad Kamat; Sourav Sen; Chehao Lu; 'lucy.fagan@db.com'; Sourav Sen; FixedIncome; 'Mike.Li@db.com'; Rachel Wish; ABS; Greg Lippmann
Subject: Warehouse Approval request

Can you approve 12.5mm of GSAMP 07-NC1 B1 at $80 (875 spread) done with GS for 2/20/2007 settle? Rated Ba1/BB+

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660501.390



GREGLIP@bloomberg.net Tomichael.lamont@db.com
cc
02/07/2007 06:51 PM bcc
SubjectRe: New Century Call, Check out the news out NEW Equity CN

=====Begin Message=====
Message#: 22689
Message Sent: 02/07/2007 18:51:44
From: GREGLIP@bloomberg.net|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
To: michael.lamont@db.com| | | |
Subject: Re: New Century Call, Check out the news out NEW Equity CN

should be careful which cdos u do that if they are not composed of comparable
assets to your also i really ques tion your ability to mark / monetize that
short when u need it but guess if u r short some cdos and have to retain
others...
----- Original Message -----
From: Michael Lamont <michael.lamont@db.com>
At: 2/07 18:50:03

equity ok I think given how we are positioned, more worried if the
debtholders start to care
good question on the mezz short. maybe we can do it w/ finkel
probably we end up buying protection on some clean single names I guess

"GREG LIPPMANN, DEUTSCHE BANK SECURI" <greglip@bloomberg.net>
Sent by: greglip@bloomberg.net
02/07/2007 06:47 PM

To
Michael Lamont/NewYork/DBNA/DeuBa@DBAmericas
cc

Subject
Re: New Century Call, Check out the news out NEW Equity CN

the equity will get naved it has happened before...who r u goi ng to short
the
mezz cdo tranches too..we r not a buyer..
----- Original Message -----
From: Michael Lamont <michael.lamont@db.com>
At: 2/07 18:06:57

yes the question is whether we are NAV'd on the debt, which will be not so
good
otherwise I think we are ok
lets talk about what to short in addition to what we already have tomorrow
we may want to try some mezz cdo tranches

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660501.391

"GREG LIPPMANN, DEUTSCHE BANK SECURI" <greglip@bloomberg.net>
Sent by: greglip@bloomberg.net
02/07/2007 06:02 PM

To
Michael Lamont/NewYork/DBNA/DeuBa@DBAmericas
cc

Subject
Re: New Century Call, Check out the news out NEW Equity CN

GOOD I WAS CALLING ABOUT WHAREHOUSE MARKS AND DISTRIBUTION RISK B/C
HEARING
RUMORS ABOUT OTHER DEALERS HAVING BIG TROUBLE PLACING THIS STUFF AND AS WE
HAVE
DISCUSSED U COULD GET NAVed AT ANY TIME...if anything incresasing the
shorts
ight make sense..
----- Original Message -----
From: Michael Lamont <michael.lamont@db.com>
At: 2/07 18:01:31

yikes. I think we will stay short a while

they guys are still working out the warehouse marks but it appears we are
down about 35mm-40mm on our synthetic ABS bonds across deals + Dutch Hill
(so doesnt include WAMCO cash bonds, Brock CDOs, Dynamic long CDOs(equity
sold though in Dynamic)
but of the 35-40mm 16mm is HBK, 12mm is Carina where Magnetar owns the
equity, and we havent marked our SS hedge yet
so I think we are in reasonable shape.
all the deals besides Brock, Gemstone and arguably WAMCO just arent ramped
that much
full #s end of week
will be then automated weekly going forward

"GREG LIPPMANN, DEUTSCHE BANK SECURI" <greglip@bloomberg.net>
Sent by: greglip@bloomberg.net
02/07/2007 05:53 PM

To
Michael Lamont/NewYork/DBNA/DeuBa@DBAmericas
cc

Subject
New Century Call, Check out the news out NEW Equity CN

The company will host a listen-only conference call today at 3:00 p.m. PST
to
review this announcement. To listen to the call, dial (800) 573-4840 or

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660501.392

(617)
224-4326 and use passcode 20268145. A replay of the call will be available from
8:00 p.m. PST today through 12:00 p.m. PST on February 21, 2007. The replay
number is (888) 286-8010 or (617) 801-6888 and the passcode is 57729403.
Additionally, the call will be webcast live and archived on the Investor Relations section of the company's Web site at www.ncen.com.

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=====End Message======



"Kevin Jenks" <kjenks@hbk.com>
02/08/2007 12:01 PM

To Michael Lamont/NewYork/DBNA/DeuBa@DBAmericas
cc
bcc
Subject RE: ** ANNOUNCING $[1.1]BLN GEMSTONE VII **

I agree, I will keep my fingers crossed

-----Original Message-----
From: Michael Lamont
Sent: Thursday, February 08, 2007 11:56 AM
To: Kevin Jenks
Subject: FW: ** ANNOUNCING $[1.1]BLN GEMSTONE VII **

Keep your fingers crossed but I think we will price this just before the market falls off a cliff (which as usual will likely find you well-positioned to acquire new risk at a good price).

We are all focused on pricing as soon as possible.

----- Forwarded by Michael Lamont/NewYork/DBNA/DeuBa on 02/08/2007 11:52 AM -----

"ILINCA BOGZA, DEUTSCHE BANK SECURI" <ibogza@bloomberg.net> Sent by: ibogza@bloomberg.net
02/08/2007 11:38 AM

To
undisclosed-recipients:;
cc

Subject
** ANNOUNCING $[1.1]BLN GEMSTONE VII **

** ANNOUNCING GEMSTONE CDO 7, A $[1.1]BLN MEZZANINE ABS CDO MANAGED BY HBK
** PORTFOLIO 100% RAMPED AT CLOSING. PREDOMINANTLY RMBS (89%) WITH SMALL ALLOCATION TO ABS CDO, CMBS AND STUDENT LOANS
** GEMSTONE CDO 7 WILL BE HBK'S EIGHTH ABS CDO
** STATIC BIG BUCKET; SHORT 2YR REINVESTMENT PERIOD FOR IG ASSETS ONLY WITH
REINVESTMENTS IN IG ONLY

CLASS	RATING(M/S)	SIZE(MM)	SIZE(%)	WAL(YR)	
A-1	Aaa/AAA	[716.0]	[65.0]	[3.2]	
A-2	Aaa/AAA	[87.0]	[7.9]	[5.3]	* CALL DESK*
B	Aa2/AA	[96.9]	[8.8]	[6.0]	
C	A2/A	[68.3]	[6.2]	[6.3]	
D	Baa2/BBB	[55.1]	[5.0]	[5.7]	
E	Ba1/BB+	[18.7]	[1.7]	[6.3]	
SUB		[59.5]	[5.4]		

** CALL THE DESK FOR WHISPER TALK AND MARKETING MATERIALS.

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660501.395

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660501.396

Michael
Lamont/NewYork/DBNA/DeuBa@DBAMERICAS

02/09/2007 06:17 PM

To Ilinca R
Bogza/NewYork/DBNA/DeuBa@DBAMERICAS@DEUBAINT
cc "Abhayad Kamat" <Abhayad.Kamat@db.com>, "Tony Pawlowski" <anthony.pawlowski@db.com>
bcc
Subject Re: Hbk

I think we should manage him to pricing a little earlier and him taking the risk on CIFG not coming in

Ilinca R
Bogza/NewYork/DBNA/DeuBa@DBAMERICAS

02/09/2007 06:00 PM

To "Michael Lamont" <michael.lamont@db.com>

cc

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Wall Street & The Financial Crisis
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660501.397

Footnote Exhibits - Page 2148

"Tony Pawlowski"

<anthony.pawlowski@db.com>, "Abhayad Kamat"
<Abhayad.Kamat@db.com>

Subject

Hbk

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Jenks just called me.. He is frightened that accounts pull their orders given the widening in abx today. I told him that most accounts abs cdo managers and that not likley but spreads could get wider

He mentioned he was going to give you a call. He is very nervous

Anthony Pawlowski/NewYork/DBNA/DeuBa@DBAMERICAS
02/13/2007 09:42 AM

To michael.lamont@db.com
cc
bcc
Subject Fw: Outstanding HBK requests

michael, in addition to not having a Red yet, see below.
i am not sure how to push guys upstairs without having them crack. everyone wants to price this deal asap (sean whelan is pushing for Friday to lock up his guys on the AAA and AA).
let me know.

----- Forwarded by Anthony Pawlowski/NewYork/DBNA/DeuBa on 02/13/2007 09:41 AM -----

Ilinca R Bogza/NewYork/DBNA/DeuBa@DBAMERICAS
02/13/2007 09:37 AM

To anthony.pawlowski@db.com
cc
Subject Outstanding HBK requests

2/8 BGI
2/9 Rabo runs
2/12 IKB blackline of presentation
2/12 IVY rerun
2/12 harding strats
2/12 m&T runs

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660501.400

Footnote Exhibits - Page 2151

Michael Lamont/NewYork/DBNA/DeuBa@DBAMERICAS

02/20/2007 02:33 PM

Tollinca R Bogza/NewYork/DBNA/DeuBa@DBAmericas@DBAMERICAS@DEUBAINT, Anthony Pawlowski/NewYork/DBNA/DeuBa@DBAmericas, Michael Herzig/NewYork/DBNA/DeuBa@DBAmericas, Abhayad Kamat/NewYork/DBNA/DeuBa@DBAmericas

cc

bcc

SubjectRe: HBK marketing

Ilinca,
Could u collate the following information (maybe we already have it) -- on our mgd mezz abs cdos last year what was the split by risk tranche across deals between real money and cdo whouses. the street may be pulling back so this would be good info to have as we think about how we are going to place risk
Sent from my Blackberry Wireless

Mr. Michael Lamont
Managing Director
Deutsche Bank Securities Inc.
60 Wall Street, 19th Floor
New York, NY, USA
Telephone: +1(212)250-8708
Mobile: +1 917-821-8843
E-Mail: michael.lamont@db.com

----- Original Message -----
From: Ilinca R Bogza
Sent: 02/20/2007 01:59 PM
To: michael.lamont@db.com;anthony.pawlowski@db.com;michael.herzig@db.com;Abhayad.Kamat@db.com
Subject: HBK marketing

Below is a summary of where we are on HBK

Senior AAAs
BGI - waiting for feedback
CIFG- waiting for feedback

Junior AAAs - 2x done at 46
IKB
M&T bank
NIB

AAs - 100% best case 67% worst case at 65dm
M&T 40mm firm
NIB 5mm at 60dm
Wachovia 20mm at 70 area. Could get them to 65 area. Other deals pricing at 65-70
Wharton - 12mm IOI. we will know tomorrow
Koch - 10mm . trying to push them into this deal
GIB- promised them junior AAA if they can get there on AAs

A's 47% worst case , 58% best case at 275dm
Acs firm 10mm
NZPM 2mm IOI
Wachovia 20mm IOI at high 200's. Other deals pricing at 225-275 context
Ivy - 4-8mm split across As and BBBs
BSAM - trying to get them to take As. No feedback

BBBs 42% worst case , 56% best case at 450dm
Commerz 15mm firm . 25bps discount from where they price
TCW 4mm firm
ING NZ 4mm IOI
IVY 4-8mm split between A's and BBBs

If you want we can discuss accounts who are out of the book and why... Can we have a call with Jenks first thing in the am re: taking back the unsold bonds..

Thanks
Ilinca

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Report Footnote #1455

Confidential Treatment Requested by DBSI Bank

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660501.401

Footnote Exhibits - Page 2152

Greg Lippmann/NewYork/DBNA/DeuBa@DBAMERICAS

02/20/2007 06:04 PM

To "Eisman, Steven" <seisman@fppartners.com>
cc "Jashin Patel" <jashin.patel@db.com>, "Rich Rizzo" <rich.rizzo@db.com>
bcc
Subject Re: Novastar

They are going to widen more. I'm in london, took the redeye and been here since. Leaving for the day. Will have jashin show you the friday levels (which were stale by 25-50bps before nfi news and more so now) we showed but one guy took us out of 530MM of them today so some of those are gone and I am actually ha ing trouble staying short with a dwindling cdo pipeline.

On cdos we think they are going much much wider but will have rich rizzo send you his latest offers.

Sent from my BlackBerry Handheld.

----- Original Message -----
From: "Eisman, Steven" [seisman@fppartners.com]
Sent: 02/20/2007 05:57 PM
To: Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas
Subject: Re: Novastar

Give me some recommendations. I love my cdo trade. Would do more in your area but things have widened so much. What looks interesting to you

---

Sent using BlackBerry

-----Original Message-----
From: Greg Lippmann <greg.lippmann@db.com>
To: Eisman, Steven
Sent: Tue Feb 20 17:55:27 2007
Subject: Re: Novastar

indeed you should get some sack and do some more shorts these bonds are going much much lower.....

Greg H. Lippmann
Managing Director
Deutsche Bank Securities Inc.
3rd Floor
60 Wall Street
New York, New York 10005
Phone (212) 250-7730
Fax (212) 797-2201
Mobile (917) [redacted]
greg.lippmann@db.com

[redacted] = Redacted by the Permanent Subcommittee on Investigations

"Eisman, Steven" <seisman@fppartners.com>

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1455

Confidential Treatment Requested by DBSI

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660501.402

02/20/2007 10:53 PM

To
Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas

cc

Subject
Novastar

It is like the plague

Sent using BlackBerry

****
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Footnote Exhibits - Page 2154



GREGLIP@bloomberg.net To IBOGZA@bloomberg.net
cc
02/20/2007 03:32 PM bcc
Subject Re: ** UPDATE $[1.1]BLN GEMSTONE VII ** REVISED TALK **

=====Begin Message=====
Message#: 371
Message Sent: 02/20/2007 15:32:36
From: GREGLIP@bloomberg.net|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
To: IBOGZA@bloomberg.net|ILINCA BOGZA|DEUTSCHE BANK SECURI|1726|328663
Subject: Re: ** UPDATE ${1.1}BLN GEMSTONE VII ** REVISED TALK **

wow that much intereest in the bbb ?? is that real ?? we would take as much as
you can oversell..
----- Original Message -----
From: ILINCA BOGZA, DEUTSCHE BANK SECURI
At: 2/20 15:17:36

** UPDATE GEMSTONE CDO 7, A ${1.1}BLN MEZZANINE ABS CDO MANAGED BY HBK

** EXPECTED PRICING FEB {21ST}.

CLASS	RATING(M/S)	SIZE(MM)	SIZE(%)	WAL(YR)	PRICE TALK	IOI
A-1	Aaa/AAA	{716.0}	{65.0}	{3.2}	* CALL DESK *	---
A-2	Aaa/AAA	{87.0}	{7.9}	{5.3}	* NOT OFFERED *	---
B	Aa2/AA	{96.9}	{8.8}	{6.0}	L+ {0.62% AREA}	90%
C	A2/A	{68.3}	{6.2}	{6.3}	L+ {2.65% AREA}	75%
D	Baa2/BBB	{55.1}	{5.0}	{5.7}	L+ {5.00% AREA}	75%
E	Ba1/BB+	{18.7}	{1.7}	{6.3}	* CALL DESK *	---
SUB		{59.5}	{5.4}			

=====End Message=====

Permanent Subcommittee on Investigations
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Report Footnote #1456

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660501.404



GREGLIP@bloomberg.net 02/20/2007 03:40 PM

To IBOGZA@bloomberg.net
cc
bcc
Subject Re: ** UPDATE $[1.1]BLN GEMSTONE VII ** REVISED TALK **

=====Begin Message=====
Message#: 1370
Message Sent: 02/20/2007 15:40:21
From: GREGLIP@bloomberg.net|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
To: IBOGZA@bloomberg.net|ILINCA BOGZA|DEUTSCHE BANK SECURI|1726|328663
Subject: Re: ** UPDATE $[1.1]BLN GEMSTONE VII ** REVISED TALK **

very sneaky...
----- Original Message -----
From: ILINCA BOGZA, DEUTSCHE BANK SECURI
At: 2/20 15:33:39

no. that is def not real.. it is at 50%.; cant oversell any tranche to be honest

=====End Message=====

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1458

Confidential Treatment Requested by DBSI

VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 01407 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

660501.405

Abhayad Kamat/NewYork/DBNA/DeuBa@DBAMERICAS

02/21/2007 12:01 PM

Tollinca R Bogza/NewYork/DBNA/DeuBa@DBNA@DEUBAINT, Michael Lamont/NewYork/DBNA/DeuBa, anthony.pawlowski@db.com

cc

bcc

Subject Re: ** UPDATE ${1.1}BLN GEMSTONE VII ** REVISED TALK **

- see email below. should we offer more PCs for Gemstone CDO 7 given the market?
- given the current market, can we offer 300 on single-As and 600 on triple-Bs on any fresh orders/accounts on single-As and triple-Bs at this stage.

thanks.

Anirban Lahiri/SP/DBAsia/DeuBa@DBAPAC

02/21/2007 11:26 AM

To

Abhayad Kamat/NewYork/DBNA/DeuBa@DBAMERICAS

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1459

VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 01408 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

660501.406

Footnote Exhibits - Page 2157

cc

Subject

Re: ** UPDATE ${1.1}BLN GEMSTONE VII ** REVISED TALK
**

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VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 01409 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

660501.407

Production credits?
~~~~~~~~~~~~~~~~~~~~~~~~~~
Sent from my BlackBerry Wireless Handheld

From: Abhayad Kamat
Sent: 22/02/2007 00:17
To: Anirban Lahiri; Sheree Ma
Cc: Ilinca R Bogza/NewYork/DBNA/DeuBa@DBNA@DEUBAINT
Subject: Fw: ** UPDATE ${1.1}BLN GEMSTONE VII ** REVISED TALK **

here's the mktg book. thanks.

(Embedded image moved to file: pic07596.pcx)

----- Forwarded by Abhayad Kamat/NewYork/DBNA/DeuBa on 02/21/2007 11:15 AM -----

Abhayad
Kamat/NewYork/DBNA/DeuBa

VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 01410 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

660501.408
~~~~~~~~~~~~~~~~~~~~~~~~~~

02/21/2007 11:13
AM

To

Anirban Lahiri/SP/DBAsia/DeuBa, Sheree
Ma

cc

Ilinca R
Bogza/NewYork/DBNA/DeuBa@DBNA@DEUBAINT

Subject

Fw: ** UPDATE S(1.1)BLN GEMSTONE VII ** REVISED TALK
**

Guys,
we need help on selling the As and BBBs in the Gemstone CDO 7 transaction -- we have nearly 50% unsold on both tranches in the transaction. We have widened talk to 265 on the As and to 500 on the BBBs - see Ilinca's email below.

- i am also fwding you the latest HBK mktg book.
- any help from you on the As, BBBs and senior AAAs would be appreciated.
- on the senior AAAs, we are flexible to work with accounts at different subordination points and spread targets.

VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 01412 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

660501.410

Here is a quick summary of the transaction and manager:
- this is HBK's eight CDO
- 2 year short revolving period -- can revolve in investment grade assets only
- 27% below IG bucket (BBs) but amortizations on this bucket are used to pay down notes -- no reinvestment in below IG bucket
- HBK retains entire BB and Equity, similar to what they have done in all their prior deals. HBK views their CDOs as financing trades, where they retain the equity and use the CDO to get levered returns.
- the 27% BB bucket is standard in their deals -- these are very similar to the C-BASS deals in the market...
- HBK's loan level analysis of RMBS pools is highly regarded in the market. HBK helps structure ~55% of the underlying RMBS in this transaction and retains the residual piece on those also.

- this CDO has pure sequential structure with OC and IC tests -- as opposed to most deals in the market which have pro-rata structure
- the BBB tranche has a turbo mechanic that helps it to pay down faster.

Are there any accounts that might be interested in this, given the good manager name, good alignment of interest with investors, sequential paydown structure, OC/IC tests, BBB turbo and wider price talk? any help appreciated.

thanks,
Abhayad

Abhayad Kamat
Global CDO Group
Deutsche Bank Securities Inc.
60 Wall Street, 19th Floor,
New York, NY 10005-2858
(212) 250-0526 work
(917) [redacted] cell
(732) 578-2890 fax

[redacted] = Redacted by the Permanent Subcommittee on Investigations

----- Forwarded by Abhayad Kamat/NewYork/DBNA/DeuBa on 02/21/2007 10:39 AM -----

"ILINCA BOGZA, DEUTSCHE BANK SECURI"
<ibogza@bloomberg.net>

Sent by:
ibogza@bloomberg.net

VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 01413 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

660501.411

Footnote Exhibits - Page 2162

To

undisclosed-
recipients:;

02/20/2007 03:17
PM

cc

Subject

** UPDATE $[1.1]BLN GEMSTONE VII ** REVISED TALK
**

VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 01414 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

660501.412

** UPDATE GEMSTONE CDO 7, A $[1.1]BLN MEZZANINE ABS CDO MANAGED BY HBK

** EXPECTED PRICING FEB [21ST].

CLASS	RATING(M/S)	SIZE(MM)	SIZE(%)	WAL(YR)	PRICE TALK	IOI
A-1	Aaa/AAA	[716.0]	[65.0]	[3.2]	* CALL DESK *	---
A-2	Aaa/AAA	[87.0]	[7.9]	[5.3]	* NOT OFFERED *	---
B	Aa2/AA	[96.9]	[8.8]	[6.0]	L+ [0.62% AREA]	90%
C	A2/A	[68.3]	[6.2]	[6.3]	L+ [2.65% AREA]	75%
D	Baa2/BBB	[55.1]	[5.0]	[5.7]	L+ [5.00% AREA]	75%
E	Ba1/BB+	[18.7]	[1.7]	[6.3]	* CALL DESK *	---
SUB		[59.5]	[5.4]			

This has been prepared solely for informational purposes. It is not an offer, recommendation or solicitation to buy or sell, nor is it an official confirmation of terms. It is based on information generally available to the public from sources believed to be reliable. No representation is made that it is accurate or complete or that any returns indicated will be achieved. Changes to assumptions may have a material impact on any returns detailed. Past performance is not indicative of future returns. Price and availability are subject to change without notice. Additional information is available upon request.

pic07596.pcx **Type:** application/octet-stream
Name: pic07596.pcx

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660501.414

Abhayad
Kamat/NewYork/DBNA/DeuBa@DBAMERICAS

03/27/2007 01:56 PM

To Richard R
Kim/NewYork/DBNA/DeuBa@DBAmericas
cc
bcc
Subject Re: Fw: ******URGENT**********

yes sure, but i think we should keep those requests separate from the CDO warehouse valuation requests... the relevant salesperson can take care of those monthly valuation marks... let me know how you want to proceed.

Richard R
Kim/NewYork/DBNA/DeuBa

03/27/2007 01:43
PM

To

Abhayad
Kamat/NewYork/DBNA/DeuBa@DBAmericas

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Wall Street & The Financial Crisis
Report Footnote #1462

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660501.415

Footnote Exhibits - Page 2166

cc

Subject

Re: Fw: ******URGENT**********(Document link: Abhayad Kamat)

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VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 01418 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

660501.416

won't our managers want to receive monthly marks for their own monitoring purposes?

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66050I.417

Abhayad
Kamat/NewYork/DBNA/DeuBa

03/27/2007 01:29
PM

To

Chehao Lu/NewYork/DBNA/DeuBa, Sara M
Chan/NewYork/DBNA/DeuBa@DBAmericas,
doug.hamilton@db.com

cc

Richard R Kim/NewYork/DBNA/DeuBa@DBAmericas, Sourav

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VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 01420 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

660501.418

Footnote Exhibits - Page 2169

Sen/NewYork/DBNA/DeuBa

Subject

Fw:

******URGENT**********

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DB_PSI_00423057

VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 01421 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

660501.419

when our CDOs close, we need to convey to valuations group that we no longer need these valuations. see eg. Gemstone 7 below. they still keep pushing trading desk to give valuations... pls can you take care of this for the deals that you work on?

thanks.

----- Forwarded by Jordan Milman/NewYork/DBNA/DeuBa on 03/27/2007 11:50 AM -----

Richard
Leclezio/NewYork/DBNA/DeuBa

03/27/2007 11:23
AM

To

Jordan
Milman/NewYork/DBNA/DeuBa@DBAmericas

cc

Subject

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DB_PSI_00423059

VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 01423 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

660501.421

******URGENT**********

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DB_PSI_00423060

VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 01424 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

660501.422

Hi Jordan,

Please can you help,

I have HBK on my back to get the following spreads.

Please can you provide the parameters.....tks

[attachment "Jordan_Milman_daily_requests_20070326.xls" deleted by Richard R Kim/NewYork/DBNA/DeuBa]

Richard Leclezio
Assistant Vice President
Valuation Services Group
Deutsche Bank [/] - New York
(t) +1 212 250 2485
(m) +1 646 [redacted]
Email: richard.leclezio@db.com
BBG: leclri.nydb@bloomberg.net

[redacted] = Redacted by the Permanent Subcommittee on Investigations

VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 01425 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

660501.423

From: Paul Mazzilli
Sent: Thursday, February 8, 2007 08:12:58 AM
To: Kevin Jenks
CC: Jason Lowry
Subject: FW: Gemstone CDO 7 - price diff between purchase price and current mark

Attachments: Prices to Kevin.xls

We found the overall loss to be down 0.9% or $9.4mm.

-----Original Message-----
From: Paul Mazzilli
Sent: Wednesday, January 24, 2007 12:44 PM
To: Kevin Jenks
Cc: Jason Lowry
Subject: RE: Gemstone CDO 7 - price diff between purchase price and current mark

We see the whole portfolio down 0.9% or $9.4mm compared to DBS's 1.7%($19mm). Attached is DBS's email with our prices included.

-----Original Message-----
From: Kevin Jenks
Sent: Wednesday, January 24, 2007 4:27 AM
To: Paul Mazzilli; Jason Lowry
Subject: Fw: Gemstone CDO 7 - price diff between purchase price and current mark

I need the gem 7 portfolio priced using our ye marks and then override where you think appropiate. I need this asap

----- Original Message -----
From: Abhayad Kamat
To: Marco Lukesch; Kevin Jenks; Rachel Wish
Cc: Chehao Lu; Sourav Sen; Konstantin Kulev <konstantin.kulev@db.com>
Sent: Tue Jan 23 20:16:50 2007
Subject: Gemstone CDO 7 - price diff between purchase price and current mark

Some investors are asking for current marks on the Gemstone CDO 7 portfolio. The attached file has the purchase price and the current marks that we got from our desk. There are many bonds where the price difference between purchase price and current mark is more than 4% -- highlighted in yellow. I have asked Jordan to review the marks but it would be great if you could have someone at HBK review also to check if the current marks seem correct. It seems as if the entire portfolio price has dropped since purchase by 1.74% which does not show well to investors.

thanks.
Abhayad

Abhayad Kamat
Global CDO Group
Deutsche Bank Securities Inc.
60 Wall Street, 19th Floor,
New York, NY 10005-2858
(212) 250-0526 work
(917) [redacted] cell
(732) 578-2890 fax

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660501.424

Abhayad Kamat/NewYork/DBNA/DeuBa@DBAMERICAS

01/23/2007 08:14 PM

To Jordan Milman/NewYork/DBNA/DeuBa@DBAmericas, Jashin Patel/NewYork/DBNA/DeuBa@DBAmericas
cc Chehao Lu/NewYork/DBNA/DeuBa, Konstantin Kulev/NewYork/DBNA/DeuBa, Sourav Sen/NewYork/DBNA/DeuBa
bcc
Subject HBK - price diff between purchase price and current mark

The attached file has the purchase price and current mark for the bonds in the HBK / Gemstone CDO 7 warehouse.

There are many bonds where the price difference between purchase price and current mark is more than 4% -- highlighted in yellow. Before we send these over to CDO investors, pls could you review to check if the current marks are correct. It seems as if the entire portfolio price has dropped since purchase by 1.74% which does not show well to investors.

thanks.

(See attached file: Gemstone VII Portfolio 01.23.07 (w Prices).xls)

Abhayad Kamat
Global CDO Group
Deutsche Bank Securities Inc.
60 Wall Street, 19th Floor,
New York, NY 10005-2858
(212) 250-0526 work
(917) [redacted] cell
(732) 578-2890 fax

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

Gemstone VII Portfolio 01.23.07 (w Prices).xls	**Type:** application/msexcel **Name:** Gemstone VII Portfolio 01.23.07 (w Prices).xls

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VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 01427 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

660501.425

Footnote Exhibits - Page 2176



Jashin Patel/NewYork/DBNA/DeuBa@DBAMERICAS

01/24/2007 01:01 PM

To Jordan Milman/NewYork/DBNA/DeuBa@DBAmericas
cc
bcc
Subject Fw: HBK - price diff between purchase price and current mark

I checked the names Abhayad highlighed are most are marked within the context of recent color there are 4 which should be tightened.

there's one cash bond which he highlighted... HEAT 2006-7 B1: we just offered prot at 465; you had a cash bid of 94-00 (362DM at 100PPC) for Fidelity in late October

(See attached file: Gemstone VII Portfolio 01.23.07 (w Prices)_JP.xls)

Jashin Patel
Securitized Product Group Trading
Deutsche Bank Securities Inc.
212 250 7730 (t)
----- Forwarded by Jashin Patel/NewYork/DBNA/DeuBa on 01/24/2007 12:46 PM -----

Abhayad Kamat/NewYork/DBNA/DeuBa

01/23/2007 08:14 PM

Permanent Subcommittee on Investigations
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Report Footnote #1466

VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 01428 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

660501.426

To

Jordan Milman/NewYork/DBNA/DeuBa@DBAmericas, Jashin Patel/NewYork/DBNA/DeuBa@DBAmericas

cc

Chehao Lu/NewYork/DBNA/DeuBa, Konstantin Kulev/NewYork/DBNA/DeuBa, Sourav Sen/NewYork/DBNA/DeuBa

Subject

HBK - price diff between purchase price and current mark

VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 01429 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

660501.427

Footnote Exhibits - Page 2178

The attached file has the purchase price and current mark for the bonds in the HBK / Gemstone CDO 7 warehouse.

There are many bonds where the price difference between purchase price and current mark is more than 4% -- highlighted in yellow. Before we send these over to CDO investors, pls could

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VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 01430 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

660501.428

you review to check if the current marks are correct. It seems as if the entire portfolio price has dropped since purchase by 1.74% which does not show well to investors.

thanks.

[attachment "Gemstone VII Portfolio 01.23.07 (w Prices).xls" deleted by Jashin Patel/NewYork/DBNA/DeuBa]

Abhayad Kamat
Global CDO Group
Deutsche Bank Securities Inc.
60 Wall Street, 19th Floor,
New York, NY 10005-2858
(212) 250-0526 work
(917) [redacted] cell
(732) 578-2890 fax

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

Gemstone VII Portfolio 01.23.07 (w Prices) _JP.xls	**Type:** application/msexcel **Name:** Gemstone VII Portfolio 01.23.07 (w Prices) _JP.xls

VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 01431 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

660501.429

Footnote Exhibits - Page 2180

Abhayad
Kamat/NewYork/DBNA/DeuBa@DBAMERICAS

01/24/2007 04:15 PM

To Chehao Lu/NewYork/DBNA/DeuBa, Ilinca R Bogza/NewYork/DBNA/DeuBa@DBNA@DEUBAINT, Konstantin Kulev/NewYork/DBNA/DeuBa
cc
bcc
Subject Re: We priced the port

for investors who have asked for current marks on the Gemstone CDO 7 portfolio, tell them: HBK says that the overall current portfolio is down USD 9mm.
no need to provide current prices on a line item level.

"Kevin Jenks"
<kjenks@hbk.com>

01/24/2007 01:14 PM

To

Abhayad
Kamat/NewYork/DBNA/DeuBa@DBAmericas

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1468

VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 01432 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

660501.430

cc

Subject

We priced the
port

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DB_PSI_00741751

VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 01433 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

660501.431

It is down 9mm

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DB_PSI_00741752

VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 01434 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

660501.432



Ilinca R
Bogza/NewYork/DBNA/DeuBa@DBAMERICAS

02/07/2007 12:55 PM

To Abhayad Kamat/NewYork/DBNA/DeuBa@DBAMERICAS@DEUBAINT
cc
bcc
Subject Re: Fw: Gemstone CDO 7 - portfolio mark

Can you ask him.. We need him to provide

Abhayad
Kamat/NewYork/DBNA/DeuBa@DBAMERICAS

02/07/2007 12:54 PM

To

Ilinca R
Bogza/NewYork/DBNA/DeuBa@DBAMERICAS@DEUBAINT

cc

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1469

VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 01435 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

660501.433

Subject

Re: Fw: Gemstone

CDO 7 - portfolio mark(Document link: Ilinca R Bogza)

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DB_PSI_00434693

VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 01436 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

660501.434

the marks we got from jordan are too low... and it will take quite some time if we try to take on an exercize where we try to get kevin and jordan to agree on the correct marks. so alternatively we ask kevin to provide us the detailed marks. worth asking.

Ilinca R
Bogza/NewYork/DBNA/DeuBa@DBAMERICAS

02/07/2007 12:52
PM

To

Abhayad.Kamat@db.com

cc

Subject

Fw: Gemstone CDO 7 -

portfolio
mark

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DB_PSI_00434695

VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 01438 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

660501.436

Why can we not show a priced portfolio?? we need to show this

----- Forwarded by Ilinca R Bogza/NewYork/DBNA/DeuBa on 02/07/2007 12:52 PM -----

Abhayad Kamat/NewYork/DBNA/DeuBa@DBAMERICAS
02/07/2007 12:51 PM

To
kjenks@hbk.com, MLukesch@hbk.com, rwish@hbk.com
cc
Ilinca R Bogza/NewYork/DBNA/DeuBa@DBNA@DEUBAINT, Chehao Lu/NewYork/DBNA/DeuBa
Subject
Gemstone CDO 7 - portfolio mark

Kevin,
what is the overall gain/loss (based on current marks) on the Gemstone CDO 7 portfolio?

Abhayad Kamat
Global CDO Group
Deutsche Bank Securities Inc.
60 Wall Street, 19th Floor,
New York, NY 10005-2858
(212) 250-0526 work
(917) [redacted] cell
(732) 578-2890 fax

[redacted] = Redacted by the Permanent Subcommittee on Investigations

VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 01439 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

660501.437



Ilinca R
Bogza/NewYork/DBNA/DeuBa@DBAMERICAS

02/07/2007 02:46 PM

To Abhayad Kamat/NewYork/DBNA/DeuBa@DBAMERICAS@DEUBAINT
cc Chehao Lu/NewYork/DBNA/DeuBa@DBAmericas
bcc
Subject Re: Fw: New simpler pricing

Can we include that in the disclaimer?

Abhayad Kamat/NewYork/DBNA/DeuBa@DBAMERICAS

02/07/2007 02:14 PM

To

Chehao Lu/NewYork/DBNA/DeuBa, Ilinca R Bogza/NewYork/DBNA/DeuBa@DBNA@DEUBAINT

cc

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Permanent Subcommittee on Investigations
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Report Footnote #1470

VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 01440 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

660501.438

Footnote Exhibits - Page 2189

Subject

Fw: New simpler pricing

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VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 01441 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

660501.439

use this for the current prices to be sent to investors, but pls note to investors that this is frm hbk.

Abhayad Kamat
Global CDO Group
Deutsche Bank Securities Inc.
60 Wall Street, 19th Floor,
New York, NY 10005-2858
(212) 250-0526 work
(917) [redacted] cell
(732) 578-2890 fax

[redacted] = Redacted by the Permanent Subcommittee on Investigations

----- Forwarded by Abhayad Kamat/NewYork/DBNA/DeuBa on 02/07/2007 02:13 PM -----

"Kevin Jenks"
<kjenks@hbk.com>

02/07/2007 02:06
PM

To

Abhayad Kamat/NewYork/DBNA/DeuBa@DBAmericas

VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 01442 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

660501.440

cc

Subject

pricing

New simpler

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VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 01443 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

660501.441

[attachment "Pricing of qem 7.xls" deleted by Ilinca R Bogza/NewYork/DBNA/DeuBa]

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DB_PSI_00711490

From: Kevin Janks
Sent: Wednesday, February 7, 2007 01:23:58 PM
To: Jason Lowry
Subject: FW: Gemstone CDO 7 - portfolio mark

Need line item marks for cdo portfolio use dec or jan depending on which is better

---

From: Abhayad Kamat
Sent: Wednesday, February 07, 2007 12:51 PM
To: Kevin Jenks; Marco Lukesch; Rachel Wish
Cc: Ilinca R Bogza; Chehao Lu
Subject: Gemstone CDO 7 - portfolio mark

Kevin,
what is the overall gain/loss (based on current marks) on the Gemstone CDO 7 portfolio?

Abhayad Kamat
Global CDO Group
Deutsche Bank Securities Inc.
60 Wall Street, 19th Floor,
New York, NY 10005-2858
(212) 250-0526 work
(917) [redacted] cell
(732) 578-2890 fax

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Wall Street & The Financial Crisis
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VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 01445 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

660501.443

From: Kevin Jenks
Sent: Wednesday, March 7, 2007 08:44:15 AM
To: Abhayad Kamat; 'Ilinca R Bogza'[ilinca.r.bogza@db.com]
Subject: FW: Updated prices

Attachments: prices sent to kevin 20070306.xls

This is our estimate of our portfolio marks currently. This is not 3rd party as we have not gotten all for February. We are approx down 30mm

From: Paul Mazzilli
Sent: Tuesday, March 06, 2007 6:20 PM
To: Kevin Jenks
Cc: Jason Lowry
Subject: Updated prices

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1475

VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 01446 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

660501.444

Greg Lippmann/NewYork/DBNA/DeuBa@DBAMERICAS

03/03/2007 07:44 AM

To "Richard Dalbert" <richard.dalbert@db.com>
cc
bcc
Subject Fw: Fremont Shut Down Sub-prime business

Call me if you want.

Sent from my BlackBerry Handheld.

From: Rajeev Misra
Sent: 03/03/2007 05:34 AM
To: Greg Lippmann
Cc: Richard DAlbert; Anshu Jain
Subject: Re: Fremont Shut Down Sub-prime business

Well, no regrets. Let's hold tight on our shorts now. It will be a bumpy mkt to mkt ride but we will prevail.

Sent from my BlackBerry Handheld.

From: Greg Lippmann
Sent: 03/02/2007 06:44 PM
To: Rajeev Misra
Cc: Richard DAlbert
Subject: Fw: Fremont Shut Down Sub-prime business

Well, we covered some a bit too early.

NEW to CCC Watch Neg at S&P from B- Watch Neg
*NEW CENTURY SAYS U.S. ATTORNEY CONDUCTING CRIMINAL PROBE
*NEW CENTURY SAYS U.S. ATTY PROBE ON TRADING, ACCOUNTING ERRORS
*NEW CENTURY SAYS NYSE REVIEWING TRANSACTIONS IN ITS SECURITIES
*NEW CENTURY SAYS SEC REQUESTED MEETING ON RESTATEMENT
*NEW CENTURY SEEKING TO OBTAIN WAIVERS FROM LENDERS
*NEW CENTURY SEES REPORTING PRETAX LOSS FOR 4Q, YEAR
*NEW CENTURY SEES CONCLUDING MATERIAL WEAKNESSES WERE PRESENT

Sent from my BlackBerry Handheld.

From: Ryan Stark
Sent: 03/02/2007 05:53 PM
To: Greg Lippmann; Hiroki Kurita; Jordan Milman
Cc: Philip Weingord; Frank Byrne; Anilesh Ahuja; Michael Commaroto; Andrew Peisch; Glenn Minkoff
Subject: Fremont Shut Down Sub-prime business

This is real - not a rumor.

Ryan Stark
Director
Deutsche Bank Securities
60 Wall St.
NY, NY 10005
212-250-8473
917-[redacted] cell

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1476

VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 01447 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

660501.445

Fremont General Corporation (the "Company") could not file its Annual Report on Form 10-K for the fiscal year ended December 31, 2006 by March 1, 2007 without unreasonable effort or expense for the reasons set forth below.

In light of the current operating environment for subprime mortgage lenders and recent legislative and regulatory events, Fremont Investment & Loan, the Company's wholly owned industrial bank subsidiary ("FIL"), intends to exit its subprime residential real estate lending business. Management and the board of directors are engaged in discussions with various parties regarding the sale of the business.

Additionally, the Company expects that it, FIL and the Company's wholly owned subsidiary, Fremont General Credit Corporation ("FGCC"), will enter into a voluntary formal agreement, to be designated as a cease and desist order (the "Order"), with the Federal Deposit Insurance Corporation (the "FDIC"). Among other things, the Order will require FIL to cease and desist from the following:

- Operating with management whose policies and practices are detrimental to FIL;
- Operating FIL without effective risk management policies and procedures in place in relation to FIL's brokered subprime mortgage lending and commercial real estate construction lending businesses;
- Operating with inadequate underwriting criteria and excessive risk in relation to the kind and quality of assets held by FIL;
- Operating without an accurate, rigorous and properly documented methodology concerning its allowance for loan and lease losses;
- Operating with a large volume of poor quality loans;
- Engaging in unsatisfactory lending practices;
- Operating without an adequate strategic plan in relation to the volatility of FIL's business lines and the kind and quality of assets held by FIL;
- Operating with inadequate capital in relation to the kind and quality of assets held by FIL;
- Operating in such a manner as to produce low and unsustainable earnings;
- Operating with inadequate provisions for liquidity in relation to the volatility of FIL's business lines and the kind and quality of assets held by FIL;
- Marketing and extending adjustable-rate mortgage ("ARM") products to subprime borrowers in an unsafe and unsound manner that greatly increases the risk that borrowers will default on the loans

==========PAGE BREAK==========

or otherwise cause losses to FIL, including (1) ARM products that qualify borrowers for loans with low initial payments based on an introductory rate that will expire after an initial period, without adequate analysis of the borrower's ability to repay at the fully

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660501.446

indexed rate, (2) ARM products containing features likely to require frequent refinancing to maintain affordable monthly payment or to avoid foreclosure, and (3) loans or loan arrangements with loan-to-value ratios approaching or exceeding 100 percent of the value of the collateral;

- Making mortgage loans without adequately considering the borrower's ability to repay the mortgage according to its terms;

- Operating in violation of Section 23B of the Federal Reserve Act, in that FIL engaged in transactions with its affiliates on terms and under circumstances that in good faith would not be offered to, or would not apply to, nonaffiliated companies; and

- Operating inconsistently with the FDIC's Interagency Advisory on Mortgage Banking and Interagency Expanded Guidance for Subprime Lending Programs.

The Order will also require FIL to take a number of steps, including (1) having and retaining qualified management; (2) limiting the Company's and FGCC's representation on FIL's board of directors and requiring that independent directors comprise a majority of FIL's board of directors; (3) revising and implementing written lending policies to provide effective guidance and control over FIL's residential lending function; (4) revising and implementing policies governing communications with consumers to ensure that borrowers are provided with sufficient information; (5) implementing control systems to monitor whether FIL's actual practices are consistent with its policies and procedures; (6) implementing a third-party mortgage broker monitoring program and plan; (7) developing a five-year strategic plan, including policies and procedures for diversifying FIL's loan portfolio; (8) implementing a policy covering FIL's capital analysis on subprime residential loans; (9) performing quarterly valuations and cash flow analyses on FIL's residual interests and mortgage servicing rights from its residential lending operation, and obtaining annual independent valuations of such interests and rights; (10) limiting extensions of credit to certain commercial real estate borrowers; (11) implementing a written lending and collection policy to provide effective guidance and control over FIL's commercial real estate lending function, including a planned material reduction in the volume of funded and unfunded nonrecourse lending and loans for condominium conversion and construction as a percentage of Tier I capital; (12) submitting a capital plan that will include a Tier I capital ratio of not less than 14% of FIL's total assets; (13) implementing a written profit plan; (14) limiting the payment of cash dividends by FIL without the prior written consent of the FDIC and the Commissioner of the California Department of Financial Institutions; (15) implementing a written liquidity and funds management policy to provide effective guidance and control over FIL's liquidity position and needs; (16) prohibiting the receipt, renewal or rollover of brokered deposit accounts without obtaining a Brokered Deposit Waiver approved by the FDIC; (17) reducing adversely classified assets; and (18) implementing a comprehensive plan for the methodology for determining the adequacy of the allowance for loan and lease losses.

In addition, the Company is analyzing, in connection with the preparation of the Company's consolidated financial statements as of and for the period ended December 31, 2006, the FDIC's criticism with respect to the Company's methodology for determining the carrying value of the Company's residential real estate loans held for sale.

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660501.447

Footnote Exhibits - Page 2198

Michael Lamont/NewYork/DBNA/DeuBa@DBAMERICAS

03/15/2007 08:33 AM

To Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas
cc
bcc
Subject Fw: HBK-pls read

lets discuss this when you have a chance. long story

----- Forwarded by Michael Lamont/NewYork/DBNA/DeuBa on 03/15/2007 08:33 AM -----

Anshu Jain/DMGGM/DMG
UK/DeuBa@DBEMEA

03/14/2007 06:36
PM

To

Fred Brettschneider/NewYork/DBNA/DeuBa@DBAmericas@DBAMERICAS@DEUBAINT, Rajeev Misra/DMGGM/DMG UK/DeuBa@DBEMEA, Yassine Bouhara/DMGEQ/DMG UK/DeuBa@DBEMEA, Pablo Calderini/NewYork/DBNA/DeuBa@DBAmericas, Barry Bausano/NewYork/DBNA/DeuBa@DBAmericas, Jonathan Hitchon/DMGEQ/DMG
UK/DeuBa@DBEMEA

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1479

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660501.448

cc

Michael Lamont/NewYork/DBNA/DeuBa@DBAmericas, Richard DAlbert/NewYork/DBNA/DeuBa@DBAmericas

Subject

Re: HBK-pls read

Well done..

From: Fred Brettschneider
Sent: 03/14/2007 06:25 PM EDT
To: Anshu Jain; Rajeev Misra; Yassine Bouhara; Pablo Calderini; Barry Bausano; Jonathan Hitchon
Cc: Michael Lamont; Richard DAlbert
Subject: HBK-pls read

We believe that we have reached an acceptable compromise with HBK. We will be restructuring the unsold mezz Aaa and we will underwrite the senior portion leaving them with the junior piece. We are still hopeful of selling the entire tranche but this "re-tranching" vastly mitigates our risk. HBK seems pleased with the outcome and was appreciative of our efforts.

Freddie

Sent from my BlackBerry Handheld.

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660501.450



Larry Pike/NewYork/DBNA/DeuBa@DBAMERICAS

03/27/2007 10:34 AM

To Sean Whelan/db/dbcom@DBAmericas, michael.jones@db.com
cc
bcc
Subject As sent to Bill Healy on HBK

Discussion points:
** On Feb 21 HBK priced GEMSTONE 7 in a weak market for CDOs
** Only about half the deal cleared up and down the capital structure with HBK taking down the balance as agreed in advance.
** Earlier during the structuring phase, we had advised them against adding a 2-year revolving (reinvestment) period rather than leaving it a static deal as in past deals but they insisted on this new feature. This process pushed the deal marketing back 2 to 3 weeks into a worse time for CDOs and added a feature not favored by investors.
** 400mm of the unsold bonds were a middle (mezz) AAA class that were expected to be purchased by an investor who backed out at a late stage due to a deteriorating market.
** HBK was upset about this and wanted DB to take these bonds down, threatening to curtail business globally with HBK if we didn't.
** In the end we agreed to carve this 400mm into a senior and junior piece and DB took down the senior 200mm, with HBK keeping the junior 200mm.

Bill- side note that they did increase the deal size from 750mm to 1.1bb but we did not have any problem with that or advise against it.
If you think I have still left out some info that clarifies anything, please let me know.

Larry Pike, CFA
Director
Deutsche Bank Securities, Inc.
225 Franklin St., 24th Floor
Boston, MA 02110
(617) 217-6422

Gemstone 7

DB holds
200mm Class A-1b1

HBK owns
200mm A-1b II
31.9mm Class B (about a third of this class)
38.3mm Class C (a little over half of this class)
36.1mm Class D (about 2/3 of this class)

They take down the BBs and equity in their deal

Below is the capital structure. The A-1b was expected to be sold but the account backed out and is NOT considered to be still actively looking at it. The class is being split further with DB keeping the senior 200mm of risk in that class and HBK keeping the junior 200mm of risk.

CLASS	RATING(M/S)	SIZE(MM)	SIZE(%)	WAL(YR)	COUPON	PRICE	DM
A-1a	Aaa/AAA	244.0	22.2	2.1	NA	NA	NA
A-1b	Aaa/AAA	400.0	36.3	3.1	L+ 0.35%		
A-2	Aaa/AAA	159.0	14.4	4.9	L+ 0.47%	100%	L+ 0.47%

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660501.451

B	Aa2/AA	96.9	8.8	5.8	L+ 0.68%	100%	L+ 0.68%
C	A2/A	68.3	6.2	6.2	L+ 2.25%	97.02640%	L+ 2.85%
D	Baa2/BBB	55.1	5.0	5.7	L+ 4.75%	98.91859%	L+ 5.00%
E	Ba1/BB+	18.7	1.7	6.3	NA	NA	NA
SUB		59.5	5.4				

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660501.452

Greg
Lippmann/NewYork/DBNA/DeuBa@DBAMERICAS

02/20/2007 05:36 PM

To Rich Rizzo/NewYork/DBNA/DeuBa@DE
cc
bcc
Subject Re: Gemstone CDO 7 - HBK - repos

we dont have much choice....either we repo for them or we take it down...so we will need to mark it etc...

Greg H. Lippmann
Managing Director
Deutsche Bank Securities Inc.
3rd Floor
60 Wall Street
New York, New York 10005
Phone (212) 250-7730
Fax (212) 797-2201
Mobile (917) [redacted]
greg.lippmann@db.com

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Rich
Rizzo/NewYork/DBNA/DeuBa

02/20/2007 09:32

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1481

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PM

To

Greg

Lippmann/NewYork/DBNA/DeuBa@DBAmericas

cc

Subject

Confidential Treatment Requested by DBSI

Footnote Exhibits - Page 2205

Re: Gemstone CDO 7 - HBK -

repos

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VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 01457 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

660501.455

Your call here
My concern is mostly about monitoring - seems like this requires the pool to be priced and hbk generally views market as tighter than it is

Also recall ilinca I think took 10-20MM of gemst 4 and 5 BBs back from jenks - they've been trying to sell and got a 25bid (from deveaney)

Sent from my BlackBerry Handheld.

From: Greg Lippmann
Sent: 02/20/2007 04:06 PM
To: Abhayad Kamat
Cc: Rich Rizzo
Subject: Re: Gemstone CDO 7 - HBK - repos

i dont understand these...seems backward....i would say 20% haircut on A and 30 on BBB at the moment....seems you are 15 and 25....

Abhayad
Kamat/NewYork/DBNA/DeuBa

VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 01458 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

660501.456

02/20/2007 09:02
PM

To

Greg

Lippmann/NewYork/DBNA/DeuBa

cc

Rich

Rizzo/NewYork/DBNA/DeuBa@DBAmericas

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VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 01459 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

660501.457

Footnote Exhibits - Page 2208

Subject

Gemstone CDO 7 - HBK -

repos

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VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 01460 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

66050I.458

Greg,

HBK's Gemstone CDO 7 is pricing tomorrow and we will probably have 40-50% of the As and BBBs unsold -- about $35m As and $30m BBBs. HBK will take these tranches back but we would like to offer them repos on these tranches if possible.

Would you be ok to offer repos at the following advance rates:

Rating	Advance Rate %
A2/A	85%
Baa2/BBB	75%

Rating	Advance Rate % (based on par)	Advance Rate % (based on pool market value)
A2/A	12.0%	6.5%
Baa2/BBB	7.0%	1.5%

- CDO purchased pool at price of ~96.5% (27% BB assets); based on current market, pool is down 2.0% since purchase.

Once you confirm if ok on the advance rates, I will check with Alain Van-Loo for interest rates to be charged.

thanks.
Abhayad

Abhayad Kamat
Global CDO Group

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VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 01461 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

660501.459

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Deutsche Bank Securities Inc.
60 Wall Street, 19th Floor,
New York, NY 10005-2858
(212) 250-0526 work
(917) [redacted] cell
(732) 578-2890 fax

----- Forwarded by Abhayad Kamat/NewYork/DBNA/DeuBa on 02/20/2007 03:44 PM -----

"ILINCA BOGZA, DEUTSCHE BANK SECURI"
<ibogza@bloomberg.net>

Sent by:
ibogza@bloomberg.net

To

undisclosed-
recipients:;

02/20/2007 03:17
PM

cc

Subject

** UPDATE $[1.1]BLN GEMSTONE VII **

REVISED TALK
**

VerDate Nov 24 2008 12:16 May 12, 2011 Jkt 066050 PO 00000 Frm 01463 Fmt 6602 Sfmt 6602 P:\DOCS\66050.TXT SAFFAIRS PsN: PAT

660501.461

** UPDATE GEMSTONE CDO 7, A $[1.1]BLN MEZZANINE ABS CDO MANAGED BY HBK

** EXPECTED PRICING FEB [21ST].

CLASS	RATING(M/S)	SIZE(MM)	SIZE(%)	WAL(YR)	PRICE TALK	IOI
A-1	Aaa/AAA	[716.0]	[65.0]	[3.2]	* CALL DESK *	---
A-2	Aaa/AAA	[87.0]	[7.9]	[5.3]	* NOT OFFERED *	---
B	Aa2/AA	[96.9]	[8.8]	[6.0]	L+ [0.62% AREA]	90%
C	A2/A	[68.3]	[6.2]	[6.3]	L+ [2.65% AREA]	75%
D	Baa2/BBB	[55.1]	[5.0]	[5.7]	L+ [5.00% AREA]	75%
E	Ba1/BB+	[18.7]	[1.7]	[6.3]	* CALL DESK *	---
SUB		[59.5]	[5.4]			

This has been prepared solely for informational purposes. It is not an offer, recommendation or solicitation to buy or sell, nor is it an official confirmation of terms. It is based on information generally available to the public from sources believed to be reliable. No representation is made that it is accurate or complete or that any returns indicated will be achieved. Changes to assumptions may have a material impact on any returns detailed. Past performance is not indicative of future returns. Price and availability are subject to change without notice. Additional information is available upon request.

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The McGraw-Hill Companies

STANDARD &POOR'S

Ratings Services

55 Water Street, 41st. Floor
New York, NY 10041-0003
212 438 2000 Tel
212 438 2650 Fax

March 15, 2007

Gemstone CDO VII Ltd.
c/o Deutsche Bank (Cayman) Limited
P.O. Box 1984 GT
Elizabethan Square, Grand Cayman
Cayman Islands
Attention: The Directors

Re: **Gemstone CDO VII Ltd./Gemstone CDO VII Corp.**
U.S.$244,000,000 Class A-1a Floating Rate Notes Due December 2045
U.S.$400,000,000 Class A-1b Floating Rate Notes Due December 2045
U.S.$159,000,000 Class A-2 Floating Rate Notes Due December 2045
U.S.$96,900,000 Class B Floating Rate Notes Due December 2045
U.S.$68,300,000 Class C Floating Rate Deferrable Interest Notes Due December 2045
U.S.$55,100,000 Class D Floating Rate Deferrable Interest Notes Due December 2045
U.S.$18,700,000 Class E Floating Rate Deferrable Interest Notes Due December 2045

Dear Sir or Madam:

Pursuant to your request for a Standard & Poor's rating on the above-referenced obligations, we have reviewed the information submitted to us and, subject to the enclosed *Terms and Conditions*, have assigned ratings to the classes as follows:

Class	Amount	Maturity	Rating
A-1a	U.S.$244,000,000	December 12, 2045	AAA
A-1b	U.S.$400,000,000	December 12, 2045	AAA
A-2	U.S.$159,000,000	December 12, 2045	AAA
B	U.S.$96,900,000	December 12, 2045	AA
C	U.S.$68,300,000	December 12, 2045	A
D	U.S.$55,100,000	December 12, 2045	BBB
E	U.S.$18,700,000	December 12, 2045	BB+

The rating is not investment, financial, or other advice and you should not and cannot rely upon the rating as such. The rating is based on information supplied to us by you or by your agents but does not represent an audit. We undertake no duty of due diligence or independent verification of any information. The assignment of a rating does not create a fiduciary relationship between us and you or between us and other recipients of the rating. We have not consented to and will not consent to being named an "expert" under the applicable securities

Confidential Treatment Request

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1484

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laws, including without limitation, Section 7 of the U.S. Securities Act of 1933. The rating is not a "market rating" nor is it a recommendation to buy, hold, or sell the obligations.

This letter constitutes Standard & Poor's permission to you to disseminate the above-assigned rating to interested parties. Standard & Poor's reserves the right to inform its own clients, subscribers, and the public of the rating.

Standard & Poor's relies on the issuer and its counsel, accountants, and other experts for the accuracy and completeness of the information submitted in connection with the rating. This rating is based on financial information and documents we received prior to the issuance of this letter. Standard & Poor's assumes that the documents you have provided to us are final. If any subsequent changes were made in the final documents, you must notify us of such changes by sending us the revised final documents with the changes clearly marked.

To maintain the rating, Standard & Poor's must receive all relevant financial information, including all reports submitted to the trustee, as soon as such information is available. Placing us on a distribution list for this information would facilitate the process. You must promptly notify us of all material changes in the financial information and the documents. Standard & Poor's may change, suspend, withdraw, or place on CreditWatch the rating as a result of changes in, or unavailability of, such information. Standard & Poor's reserves the right to request additional information, if necessary, to maintain the rating. Please send all information available via electronic delivery to: SCDO_surveillance@sandp.com. In addition, please send hard copies of all information to: Standard & Poor's Ratings Services, 55 Water Street, 42nd floor, New York, New York 10041-0003, Attention: SCDO Surveillance Group.

Standard & Poor's is pleased to have the opportunity to be of service to you. For more information please visit our website at www.standardandpoors.com. If we can be of help in any other way, please contact us. Thank you for choosing Standard & Poor's and we look forward to working with you again.

Very truly yours,

Standard & Poor's Ratings Services,
a division of The McGraw-Hill Companies, Inc.

"Standard & Poor's" /sjt

Analytical Contact: William Leong
212-438-1387

STANDARD
&POOR'S

Standard & Poor's Ratings Services
Terms and Conditions
Applicable To
U.S. Structured Finance Ratings

Scope of Rating. You understand and agree that (i) an issue rating reflects Standard & Poor's current opinion of the likelihood that payments of principal and interest will be made on a timely basis in accordance with the terms of the obligations, (ii) a rating is an opinion and is not a verifiable statement of fact, (iii) ratings are based on information supplied to Standard & Poor's by an issuer or its agents and upon other information obtained by Standard & Poor's from other sources it considers reliable, (iv) Standard & Poor's does not perform an audit in connection with any rating and a rating does not represent an audit by Standard & Poor's, (v) Standard & Poor's relies on the issuer, its accountant, counsel, and other experts for the accuracy and completeness of the information submitted in connection with the rating and surveillance process, (vi) Standard & Poor's undertakes no duty of due diligence or independent verification of any information, (vii) Standard & Poor's does not and cannot guarantee the accuracy, completeness, or timeliness of the information relied on in connection with a rating or the results obtained from the use of such information, (viii) Standard & Poor's may raise, lower, suspend, place on CreditWatch, or withdraw a rating at any time, in Standard & Poor's sole discretion, and (ix) a rating is not a "market" rating nor a recommendation to buy, hold, or sell any financial obligation.

Publication. Standard & Poor's reserves the right to publish, disseminate, or license others to publish or disseminate the rating and the rationale for the rating unless you specifically request that the rating be assigned and maintained on a confidential basis. If a confidential rating subsequently becomes public through disclosure by the issuer or a third party other than Standard & Poor's, Standard & Poor's reserves the right to publish it. As a matter of policy, Standard & Poor's publishes ratings for all public issues and 144A issues in the U.S. market. Standard & Poor's may release analytical reports describing the transaction and explaining the basis of our rating in our sole discretion, and we acknowledge that these reports are not issued by or on behalf of you or at your request. Standard & Poor's may publish explanations of Standard & Poor's ratings criteria from time to time and nothing in this Agreement shall be construed as limiting Standard & Poor's ability to modify or refine Standard & Poor's criteria at any time as Standard & Poor's deems appropriate.

Information to be Provided by You. You shall meet with Standard & Poor's for an analytic review at any reasonable time Standard & Poor's requests. You also agree to provide Standard & Poor's promptly with all information relevant to the rating and surveillance of the rating including information on material changes to information previously supplied to Standard & Poor's. The rating may be affected by Standard & Poor's opinion of the accuracy, completeness, timeliness, and reliability of information received from you or your agents. Standard & Poor's undertakes no duty of due diligence or independent verification of information provided by you or your agents. Standard & Poor's reserves the right to withdraw the rating if you or your agents fails to provide Standard & Poor's with accurate, complete, timely, or reliable information.

Confidential Information. For purposes of this Agreement, "Confidential Information" shall mean information received by Standard & Poor's from you or your agents which has been marked "Proprietary and Confidential" or in respect of which Standard & Poor's has received specific written notice of its proprietary and confidential nature. Notwithstanding the foregoing, information disclosed by you or your agents shall not be deemed to be Confidential Information, and Standard & Poor's shall have no obligation to treat such information as Confidential Information, if such information (i) was substantially known by Standard & Poor's at the time of such disclosure, (ii) was known to the public at the time of such disclosure, (iii) becomes known to the public (other than by Standard & Poor's act) subsequent to such disclosure, (iv) is disclosed lawfully to Standard & Poor's by a third party subsequent to such disclosure, (v) is developed independently by Standard & Poor's without reference to the Confidential Information, (vi) is approved in writing by you for public disclosure, or (vii) is required by law to be disclosed by you or Standard & Poor's, provided that notice of such required disclosure is given to you. Commencing on the date hereof,

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Standard & Poor's will use Confidential Information only in connection with the assignment and monitoring of ratings and will not directly disclose any Confidential Information to any third party. Standard & Poor's may also use Confidential Information for research and modeling purposes provided that the Confidential Information is not presented in a way that can be directly tied to you. You agree that the Confidential Information may be used to raise, lower, suspend, withdraw, and place on CreditWatch any rating if the Confidential Information is not directly disclosed.

Standard & Poor's Not an Advisor, Fiduciary, or Expert. You understand and agree that Standard & Poor's is not acting as an investment, financial, or other advisor to you and that you should not and cannot rely upon the rating or any other information provided by Standard & Poor's as investment or financial advice. Nothing in this Agreement is intended to or should be construed as creating a fiduciary relationship between Standard & Poor's and you or between Standard & Poor's and recipients of the rating. You understand and agree that Standard & Poor's has not consented to and will not consent to being named an "expert" under the applicable securities laws, including without limitation, Section 7 of the U.S. Securities Act of 1933.

Limitation on Damages. You agree that Standard & Poor's, its officers, directors, shareholders, and employees shall not be liable to you or any other person for any actions, damages, claims, liabilities, costs, expenses, or losses in any way arising out of or relating to the rating or the related analytic services provided for in an aggregate amount in excess of the aggregate fees paid to Standard & Poor's for the rating, except for Standard & Poor's gross negligence or willful misconduct. In no event shall Standard & Poor's, its officers, directors, shareholders, or employees be liable for consequential, special, indirect, incidental, punitive or exemplary damages, costs, expenses, legal fees, or losses (including, without limitation, lost profits and opportunity costs). In furtherance and not in limitation of the foregoing, Standard & Poor's will not be liable in respect of any decisions made by you or any other person as a result of the issuance of the rating or the related analytic services provided by Standard & Poor's hereunder or based on anything that appears to be advice or recommendations. The provisions of this paragraph shall apply regardless of the form of action, damage, claim, liability, cost, expense, or loss, whether in contract, statute, tort (including, without limitation, negligence), or otherwise. You acknowledge and agree that Standard & Poor's does not waive any protections, privileges, or defenses it may have under law, including but not limited to, the First Amendment of the Constitution of the United States of America.

Term. This Agreement shall terminate when the ratings are withdrawn. Notwithstanding the foregoing, the paragraphs above, "Confidential Information", "Standard & Poor's Not an Advisor, Fiduciary, or Expert", and "Limitation on Damages", shall survive the termination of this Agreement or any withdrawal of a rating.

Third Parties. Nothing in this Agreement, or the rating when issued, is intended or should be construed as creating any rights on behalf of any third parties, including, without limitation, any recipient of the rating. No person is intended as a third party beneficiary to this Agreement or to the rating when issued.

Binding Effect. This Agreement shall be binding on, and inure to the benefit of, the parties hereto and their successors and assigns.

Severability. In the event that any term or provision of this Agreement shall be held to be invalid, void, or unenforceable, then the remainder of this Agreement shall not be affected, impaired, or invalidated, and each such term and provision shall be valid and enforceable to the fullest extent permitted by law.

Complete Agreement. This Agreement constitutes the complete agreement between the parties with respect to its subject matter. This Agreement may not be modified except in a writing signed by authorized representatives of both parties.

Governing Law. This Agreement and the rating letter shall be governed by the internal laws of the State of New York. The parties agree that the state and federal courts of New York shall be the exclusive forums for any dispute arising out of this Agreement and the parties hereby consent to the personal jurisdiction of such courts.

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Moody's Investors Service

March 15, 2007

Gemstone CDO VII Ltd.
c/o Deutsche Bank (Cayman) Limited
P.O. Box 1984 GT, Elizabethan Square
George Town, Grand Cayman
Cayman Islands

99 Church Street
New York, New York 10007

Gemstone CDO VII Corp.
c/o Puglisi & Associates
850 Library Avenue Suite 204
Newark, Delaware 19711

Deutsche Bank Trust Company Americas
1762 East St. Andrew Place
Santa Ana, California 92705

Re: U.S. $244,000,000 Class A-1a Floating Rate Notes Due December 2045 (the "Class A-1a Notes")
U.S. $400,000,000 Class A-1b Floating Rate Notes Due December 2045 (the "Class A-1b Notes")
U.S. $159,000,000 Class A-2 Floating Rate Notes Due December 2045 (the "Class A-2 Notes")
U.S. $96,900,000 Class B Floating Rate Notes Due December 2045 (the "Class B Notes")
U.S. $68,300,000 Class C Floating Rate Deferrable Interest Notes Due December 2045 (the "Class C Notes")
U.S. $55,100,000 Class D Floating Rate Deferrable Interest Notes Due December 2045 (the "Class D Notes")
U.S. 18,700,000 Class E Floating Rate Deferrable Interest Notes Due December 2045 (the "Class E Notes")

Ladies and Gentlemen:

At your request, Moody's Investors Service has reviewed for rating purposes the information submitted to Moody's in connection with the issuance of the above-captioned Notes. Capitalized terms used but not defined herein shall have the meanings ascribed to such terms in the Indenture dated as of March 15, 2007 among Gemstone CDO VII Ltd., as Issuer, Gemstone CDO VII Corp. as Co-Issuer and Deutsche Bank Trust Company Americas, as Trustee (the "Indenture").

Based upon the information submitted, Moody's has assigned the following ratings to the Notes: **"Aaa" to the Class A-1a Notes, "Aaa" to the Class A-1b Notes, "Aaa" to the Class A-2 Notes, "Aa2" to the Class B Notes","A2" to the Class C Notes, "Baa2" to the Class D Notes and "Ba1" to the Class E Notes.**

The rating assigned to the Notes addresses the ultimate cash receipt by the Noteholders of all required interest and principal payments as provided by the Notes governing documents. The ratings are based on the expected loss posed to the Notes relative to the promise of receiving the present value of such payments. The ratings are also based upon the legal structure of the transaction and the characteristics of the Underlying Assets.

Moody's will publish notice of the ratings and will monitor the ratings. The ratings are subject to reconsideration at Moody's sole discretion. The ratings are contingent upon receipt by Moody's, within 30 days of the date of this letter, of all executed documents in electronic format (e.g. Acrobat PDF).

Very truly yours,

Stephen C. Liocé
Vice President and Senior Credit Officer

Gary Lo
Senior Associate

TOTAL P.02

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1484

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STATE OF NEW YORK
SUPREME COURT : COUNTY OF ERIE

M&T BANK CORPORATION
One M&T Plaza
Buffalo, New York 14203

Plaintiff,

v.

Index No. 2008007064

GEMSTONE CDO VII, LTD.
c/o Deutsche Bank (Cayman), Ltd.
P.O. Box 1984
Grand Cayman KY1-1104

GEMSTONE CDO VII CORP.
c/o Donald Puglisi
850 Liberty Avenue, Suite 204
Newark, Delaware 19711

DEUTSCHE BANK SECURITIES, INC.
60 Wall Street
New York, New York 10005

DEUTSCHE BANK TRUST COMPANY AMERICAS
60 Wall Street
New York, New York 10005

DEUTSCHE BANK AG
60 Wall Street
New York, New York 10005

HBK INVESTMENTS, LP
300 Crescent Court
Dallas, Texas 75201

HBK PARTNERS II LP
300 Crescent Court
Dallas, Texas 75201

HBK MANAGEMENT LLC
300 Crescent Court
Dallas, Texas 75201

Defendants.

SUMMONS

FILED
ACTIONS & PROCEEDINGS
JUN 16 2008
ERIE COUNTY
CLERK'S OFFICE

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1487

CONFIDENTIAL - PRODUCED TO M&T PURSUANT

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TO DEFENDANT(S):

YOU ARE SUMMONED to appear in this action by serving your answer to the complaint on the plaintiff's attorney within the time limits stated below.

Erie County is designated as the county where this action will be tried, because one or more of the parties to this action resides in that county. If this action is based upon a consumer credit transaction, that county is designated because one or more of the defendants resides in that county or because the transaction sued upon occurred in that county.

TIME LIMITS TO ANSWER:

(1) If this summons is served by delivery to you personally within New York State, you must answer the complaint within TWENTY (20) days after such delivery.

(2) If this summons is not served by delivery to you personally within New York State, and not served pursuant to CPLR 312-a, you must answer the complaint within THIRTY (30) days after service is complete.

(3) If this summons is served pursuant to CPLR 312-a, see accompanying STATEMENT OF SERVICE BY MAIL for time limits to answer.

IF YOU FAIL TO ANSWER THE COMPLAINT within the time stated, judgment will be entered against you for the relief demanded in the complaint.

Dated: Buffalo, New York
June 16, 2008

HODGSON RUSS LLP
Attorneys for M&T Bank Corporation

By _____
Robert J. Lane, Jr.
Jodyann Galvin
The Guaranty Building
140 Pearl Street, Suite 100
Buffalo, New York 14202
Telephone: (716) 856-4000

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STATE OF NEW YORK
SUPREME COURT : COUNTY OF ERIE

M&T BANK CORPORATION,

Plaintiff

v.

Index No. 2008 007014

GEMSTONE CDO VII, LTD.; GEMSTONE CDO VII CORP.; DEUTSCHE BANK SECURITIES, INC.; DEUTSCHE BANK TRUST COMPANY AMERICAS; DEUTSCHE BANK AG; HBK INVESTMENTS, LP; HBK PARTNERS II LP; and HBK MANAGEMENT LLC,

Defendants.

FILED
ACTIONS & PROCEEDINGS
JUN 16 2008
ERIE COUNTY
CLERK'S OFFICE

COMPLAINT

M&T BANK CORPORATION, by its attorneys, Hodgson Russ LLP and Kornstein Veisz Wexler & Pollard, LLP, alleges for its complaint:

Parties

1. M&T Bank Corporation ("M&T") is a New York corporation with its principal office at One M&T Plaza, Buffalo, New York 14203.

2. Defendant Gemstone CDO VII, Ltd. ("Gemstone Ltd.") is a Cayman Islands limited partnership with its principal office at c/o Deutsche Bank (Cayman), Ltd., P.O. Box 1984, Grand Cayman KY1-1104. Gemstone Ltd. is the issuer of the notes sold to M&T which are the subject of this action (the "Gemstone VII notes").

3. Defendant Gemstone CDO VII Corp. ("Gemstone Corp.") is a Delaware corporation with its principal office at c/o Donald Puglisi, 850 Liberty Avenue, Suite 204,

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Newark, Delaware 19711. Gemstone Corp. is the co-issuer of the Gemstone VII notes.

4. Deutsche Bank Trust Company Americas ("Deutsche Bank Trust") is a New York banking corporation with its principal office at 60 Wall Street, New York, New York. Deutsche Bank Trust acted as trustee of the trust formed to hold and administer the collateral underlying the Gemstone VII notes (the "Gemstone Trust").

5. Defendant Deutsche Bank Securities, Inc. ("DBSI") is a Delaware corporation with its principal office at 60 Wall Street, New York, New York. DBSI is a registered broker-dealer, and it was the direct seller to M&T of the Gemstone VII notes. DBSI is the owner of a Class A-1b note. The Class A-1b notes are referred to in the Gemstone VII offering circular and in the indenture for the Gemstone Trust as the "Controlling Class." The Controlling Class noteholders have rights superior to M&T, including higher priority to interest and principal and rights to determine whether the Gemstone Trust collateral is liquidated under certain circumstances.

6. Deutsche Bank AG is a German corporation with an office at 60 Wall Street, New York, New York. Deutsche Bank AG acted as counterparty on the credit default swaps which constituted $600 million of the collateral for the Gemstone VII notes.

7. HBK Investments, LP ("HBK") is a Delaware limited partnership with its principal office at 300 Crescent Court, Dallas, Texas 75201, and with an office at 350 Park Avenue, New York, New York. HBK is the collateral manager for the Gemstone VII trust. HBK is also the owner of the $18.7 million Class E note and (together with DBSI) $400 million in Class A-1b notes issued by the Gemstone Ltd. and Gemstone Corp.

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8. HBK Partners II LP ("HBK Partners") is a Delaware limited partnership with its principal office at 300 Crescent Court, Dallas, Texas 75201. HBK Partners is a general partner of HBK.

9. HBK Management LLC ("HBK Management") is a Delaware limited liability company with its principal office at 300 Crescent Court, Dallas, Texas 75201. HBK Management is a general partner of HBK Partners.

Summary of this Action

10. This action seeks recovery of more than $82 million of losses suffered by M&T as a result of a fraud and other wrongful conduct by DBSI, HBK, and their affiliates. Between early 2004 and 2007, DBSI and HBK marketed several series of notes known generically as "collateralized debt obligations" ("CDOs"), primarily under the name "Gemstone," representing that these notes were safe, secure, and nearly risk-free. On February 21, 2007, DBSI sold to M&T two Gemstone VII notes, each due December 12, 2045: (1) a Class A-2 note in the amount of $42 million, which was rated AAA by Standard & Poor's ("S&P") and which paid interest at the annual rate of 1-month LIBOR plus .47% (initially 5.82%); and (2) a Class B note in the amount of $40 million, which was rated AA by S&P and paid interest at the annual rate of 1-month LIBOR plus .68% (initially 6.03%). On February 21, 2007, 30-day U.S. Treasury bills, which were essentially risk-free, paid 5.253% annual interest; 30-day commercial paper from a high-grade corporation such as General Electric paid 5.23% annual interest and 1-month LIBOR, which is generally assumed to represent AA-rated bank debt, paid 5.32% annual interest. The Gemstone VII notes purchased by M&T were marketed by defendants as providing a higher interest rate than Treasury bills or high-grade corporate bonds, with a risk level lower

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than high-grade bonds and approaching the risk-free level of Treasury bills.

11. While the representation that the Gemstone VII notes were safe, secure, and nearly risk-free may or may not have been true for earlier Gemstone CDOs, it was entirely false for the Gemstone VII notes sold to M&T in February 2007. By February 2007, DBSI and HBK had dramatically reduced the underwriting standards and due diligence performed in selecting and assembling the collateral underlying the notes they marketed. This reduction in underwriting and due diligence standards was not disclosed to M&T. As a result of their reduced underwriting and due diligence standards, defendants were able to structure the Gemstone VII CDO with impaired and non-conforming collateral, directly contrary to their representations that the Gemstone VII notes were a safe, secure, and nearly risk-free investment.

12. Defendants marketed the Gemstone CDO offerings, including Gemstone VII, by emphasizing the ratings awarded to the Gemstone notes by S&P and Moody's — the two leading debt rating companies. M&T's Class A-2 note was rated AAA by S&P and Aaa by Moody's. These are the highest ratings for safety and ability to repay. M&T's Class B note was rated AA by S&P and Aa2 by Moody's. These are the second highest ratings for safety and ability to repay. Defendants knew that these ratings were misleading and inflated, because defendants had withheld from the rating agencies material information about the quality and default problems defendants were experiencing with subprime collateral under their control in late 2006 and early 2007. Upon information and belief, defendants also withheld from the rating agencies information about the extent and scope of fraud and other problems with their subprime loan-backed portfolios and that subprime originators were refusing to stand behind their contractual warranties relating to such loans. Upon information and belief, if this information

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had been disclosed to the rating agencies, the notes purchased by M&T would have received lower ratings, and M&T would not have purchased them.

13. Among the other material misrepresentations made by defendants in marketing the Gemstone VII notes to M&T were:

a. The Gemstone VII notes were sold as safe, secure, and nearly risk-free investments, similar to (but safer than) high-grade corporate bonds. In fact, defendants were aware, and failed to disclose, that the collateral underlying the Gemstone VII notes was impaired and rapidly deteriorating at the time the notes were offered for sale.

b. Defendants represented that they applied stringent underwriting standards in assembling and selecting the subprime mortgage collateral underlying the Gemstone VII notes and that they performed extensive, detailed, and state-of-the-art loan level and market due diligence in assembling and selecting that collateral, utilizing proprietary analytical systems and tools. Defendants marketed these features as assuring the safety and strong performance of the Gemstone VII notes. In fact, defendants knew that their underwriting standards and due diligence efforts had declined substantially from the earlier Gemstone offerings and that, as a result, the collateral underlying the Gemstone VII notes was impaired and deteriorating.

c. Defendants represented that HBK possessed unique and

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extraordinary skills as a collateral manager, which ensured the high quality of the Gemstone VII notes and the strong performance of its collateral.

d. Defendants represented that the ratings assigned to the Gemstone notes by independent ratings agencies (S&P's and Moody's) were objective and reliable indicators that the Gemstone notes had the highest degree of safety. The Class A-2 note purchased by M&T was rated AAA by S&P and Aaa by Moody's. The Class B note purchased by M&T was rated AA by S&P and Aa2 by Moody's. In soliciting M&T, defendants emphasized that these ratings indicated that the notes M&T purchased were high-quality, low-risk investments and that the capacity of the issuer to meet all commitments under the notes was "extremely strong" and/or "very strong." In fact, defendants actually negotiated the structure of the Gemstone VII offering with the rating agencies with a specific view toward obtaining particular ratings for classes of notes for marketing purposes. Defendants knew that the ratings they obtained for the Gemstone VII notes were fraudulent and false, overstated the safety and security and understated the risk of the notes, and did not accurately reflect the impaired and deteriorating quality of the collateral underlying the Gemstone VII notes.

e. Defendants represented that the structure of the Gemstone VII

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CDO provided a high degree of safety, due to the overcollateralization and tranching of the CDO. "Overcollateralization" means that there was more collateral than necessary to pay the senior and mezzanine-level notes. "Tranching" refers to the fact that the Gemstone VII notes were organized by level of seniority (or "tranche"). Because the claims to interest and principal of the less senior notes were subordinated to the claims of the more senior notes, any losses would be borne entirely by the less senior notes until their investment was exhausted. This structure was marketed as conferring a high-degree of safety on the more senior notes (such as the notes purchased by M&T).

14. In fact, all of these representations were false. The structure of the Gemstone VII CDO did not ensure its safety; that structure did not and could not protect it from massive losses. The ratings given the Gemstone VII notes by S&P and Moody's were not indicative of safety; defendants had misrepresented the collateral underlying the notes to the ratings agencies and the Gemstone VII notes did not objectively earn the ratings that defendants touted in their marketing. Defendants' representations that HBK had conducted extensive due diligence to eliminate problem loans was simply false; HBK was aware that there was a substantial percentage of non-conforming mortgages underlying the Gemstone VII collateral. Finally, the representations that HBK's alleged management skills conferred safety on the Gemstone VII notes was false; HBK and DBSI knowingly and intentionally included low-quality and unstable collateral in the Gemstone VII offering for the purpose of closing the offering and

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earning fees.

FACTS RELEVANT TO M&T'S CLAIMS

Background of the Subprime Mortgage Market and CDOs

15. Prior to 2003, the subprime sector of the mortgage market was relatively small, consisting of only 8% of originated mortgages. In 2003, that figure rose to 18%. In 2005 and 2006, subprime mortgages consisted of 20% of all originated mortgages. By 2007, there was $1.3 trillion in outstanding subprime mortgage debt, $600 billion of which was originated in 2006.

16. Prior to 2002, subprime mortgage-backed securitizations involved the issuance of bonds backed by subprime mortgages or the sale of interests in trusts that held subprime mortgages. In 2002, it became more common for the financial services industry to package subprime mortgages into CDOs. CDOs are entities that issue debt securities (often notes) collateralized by other debt instruments (typically bonds, loans, or other financial obligations) which generate a stream of cash flows in the form of interest payments, as well as a return of principal. The cash flow from the collateral is used to repay the notes issued by the CDO. The purchase of securities issued by the CDO is essentially a purchase of a right to participate in the cash flows from the collateral portfolio owned by the CDO.

17. CDOs are distinguished from simpler mortgage-backed securities, such as bonds, by a number of features. First, CDOs typically own a large number of separate mortgage backed bonds; the Gemstone VII CDO, for example, owns approximately 105 mortgage or loan-backed bonds. CDO promoters marketed this as an advantage, claiming that the number of different bonds comprising the collateral provides "diversification," that there is little default

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correlation among the bonds, and that this contributes to safety. Second, CDOs are structured into different levels (or "tranches") of risk. Investors who buy debt in the bottom tranche receive higher interest, but their interest is the first to be impaired on default. The rights of the lower-level tranches to receive interest payments are subordinate to the rights of the higher-level tranches to receive their interest payments. Investors who purchase notes from the higher tranches are paid less interest, but in return receive a higher degree of safety. In essence, the principal and interest that should be available to pay the lower tranches if the collateral performs as projected acts as "back-up" collateral for the higher tranches. This is referred to as "overcollateralization," and it acts as credit enhancement supporting the higher tranches. This structure allowed CDO issuers to sell notes that were AAA rated to investors seeking a high degree of safety and to sell notes that were rated below investment grade to investors seeking high returns.

18. While subprime mortgage originations rose dramatically from 2001 through 2005 (from $120 billion to over $625 billion), the demand for subprime mortgages as collateral for securitizations grew even more quickly. The investment banking industry had created flexible debt products that it marketed to fill the needs of institutional investors with a wide range of investment goals, from those seeking relatively high returns with moderate risk to those seeking a high degree of safety with more moderate returns. The AAA and AA rated tranches (which accounted for far more than half of the value in a typical subprime CDO offering) were marketed as alternatives to high-grade corporate bonds and other fixed-income securities, offering equal or greater safety and modestly higher returns.

19. The demand for subprime mortgage-backed bonds (both for direct sale and

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to serve as collateral in CDOs) was so strong that by 2004 it was common for more than half of the collateral underlying a CDO to be made up of derivatives known as "credit default swaps," the performance of which mirrored an identified group of subprime mortgage-backed bonds (known as "Reference Obligations"). A "credit default swap" is a securities derivative under which one party sells credit insurance to another (known as the "credit default swap counterparty"). In return for a premium or stream of premium payments, the seller of the credit default swap agrees to pay the counterparty any shortfall in interest or principal payments that occurs as a result of any default in payments under the Reference Obligation. While the purchase of a credit default swap could be part of a plan to hedge the risk of default on a bond owned by the counterparty, the counterparty need not own the Reference Obligation and could be purchasing the credit protection purely as a speculative investment strategy.

20. The premiums received in return for selling credit default swaps become additional collateral that are reinvested by the CDO to generate increased cash flow to pay interest and principal pursuant to the CDO's terms for each tranche. The effect of selling credit default swaps is to create "virtual" investments in the subprime mortgage-backed bonds identified as Reference Obligations. There was a secondary motivation for utilizing credit default swaps in CDOs. It made it easier to assemble the required collateral for closing the CDO offering. For example, if 50% of the CDO collateral was credit default swaps, then the value of actual cash bonds to be purchased was reduced by half.

21. In retrospect, the widespread use of credit default swaps in place of actual cash bonds (which were in short supply) was indicative of an industry that was growing recklessly and speculatively, without proper controls. Out of the approximately $1.1 billion

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raised in the Gemstone VII offering, $600 million was committed as potential security for credit default swaps.

M&T's Investment Decision

22. In early 2007, M&T's Treasury Department began investigating the possibility of investing in mortgage-backed CDOs. M&T contacted a number of broker-dealers and gathered information on several different CDO offerings. One of the broker-dealers was DBSI, which had a long-standing relationship with M&T. Sean Whelan, a salesman at DBSI, provided M&T with general information regarding the Gemstone VII CDO (all positive in nature).

23. The Gemstone VII CDO comprises two entities: Gemstone Ltd. (the "Issuer") and Gemstone Corp. (the "Co-Issuer"). All shares of the Issuer are owned by a Deutsche Bank Cayman Islands affiliate. All shares of the Co-Issuer are owned by the Issuer. Thus, the Issuers of the Gemstone VII notes are Deutsche Bank affiliates. The Gemstone VII notes were sold by the Issuers to DBSI for re-sale to investors like M&T. Accordingly, Mr. Whelan was selling a deal that was essentially a proprietary product formed and owned by Deutsche Bank and its affiliates.

24. In early February 2007, M&T met with HBK Investments at its 350 Park Avenue offices to discuss the Gemstone VII CDO. At that meeting or shortly afterward, M&T was provided with a copy of the preliminary offering circular and a document entitled: "Gemstone CDO VII Ltd. — Debt Investor Presentation," dated February 8, 2007. These documents, which are collectively referred to as the "Gemstone offering materials," contain numerous representations about the structure of the Gemstone VII CDO and the risk level

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associated with each of its tranches.

25. M&T placed its order for $82 million in Gemstone VII notes on February 21, 2007. In deciding to invest in the Gemstone VII CDO, M&T relied on the Gemstone offering materials, the ratings of the Gemstone VII notes, and oral representations by DBSI and HBK Investments. M&T purchased a $42 million Class A-2 note (AAA rated) and a $40 million Class B note (AA rated).

26. According to S&P, a AAA rating is defined as follows:

> "An obligation rated 'AAA' has the highest rating assigned by Standard & Poor's. The obligor's capacity to meets its financial commitment on the obligation is extremely strong."

S&P defines a AA rating as follows:

> "An obligation rated 'AA' differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong."

27. S&P represents that its long-term issue credit ratings are based on: (1) likelihood of payment — capacity and willingness of the obligor to meets its financial commitment on an obligation in accordance with the terms of the obligation; (2) nature of and provisions of the obligation; and (3) protection afforded by, and relative position of, the obligation in the event of bankruptcy. S&P further represents that "issue ratings are an assessment of default risk, but may incorporate an assessment of relative seniority or ultimate recovery in the event of a default." Finally, in explaining its ratings, S&P indicates that an "issue credit rating is a current opinion of the creditworthiness of an obligor with respect to a specific

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financial obligation, a specific class of financial obligations, or a specific financial program. . . . It takes into consideration the creditworthiness of guarantors, insurers, or other forms of credit enhancement on the obligation and takes into account the currency in which the obligation is denominated. The opinion evaluates the obligor's capacity and willingness to meet its financial commitments as they come due, and may assess terms, such as collateral security and subordination, which could effect ultimate payment in the event of a default."

28. The AAA and AA ratings were major considerations in M&T's determination to invest in the Gemstone VII notes, because they indicated that the notes were safe, stable, and nearly risk-free investments. DBSI and HBK represented, expressly and/or impliedly, that the ratings were accurate and based on access by the rating agencies to the Gemstone VII financial information, including information about the collateral portfolio, and that all material information was provided to the rating agencies. In marketing the Gemstone VII notes based substantially on their S&P and Moody's ratings, DBSI, HBK, and the Issuers were representing that those ratings were accurate and were based on complete information.

29. This is further supported by the fact that the rating agencies were directly involved in the process of structuring the Gemstone series of CDOs. An issuer seeking an S&P or Moody's rating provides a preliminary deal structure to the ratings agencies, advising which rating it seeks to procure for each tranche. In response, the ratings agencies will provide feedback, indicating that additional credit support is (or is not) necessary to obtain the desired rating.

Representations in the
Gemstone VII Offering Circular

30. The Gemstone VII offering circular (the "GOC") states that the "net

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proceeds from the issuance and sale of the Notes . . . will be used by the Issuer to purchase a diversified portfolio of interests in Underlying Assets having the characteristics described herein." GOC at 106. The offering circular describes the Underlying Assets as "Asset-Backed Securities" (*e.g.*, bonds) and "Synthetic Securities," consisting of credit default swaps. GOC at 109, 122. With respect to Synthetic Securities, the S&P or Moody's rating shall be the rating of the underlying Reference Obligation. GOC at 66-67. The offering circular further states that there are certain "Collateral Quality Tests" that "will be used to establish that the characteristics of the Issuer's portfolio on the Closing Date satisfy certain threshold levels." There are six Collateral Quality Tests, four of which rely upon S&P and Moody's ratings for the Underlying Assets. GOC at 132-33.

31. The offering circular also describes various "overcollateralization" tests, which measure the excess value of the collateral supporting each of the notes over the outstanding principal balance of the notes; the greater the excess, the safer the notes. M&T purchased Class A-2 Notes and Class B Notes. The Class A/B overcollaterization test requires that the Net Outstanding Underlying Asset Balance divided by the aggregate outstanding principal amount of the Class A and Class B notes be at least 117.37%. GOC at 72. As of March 31, 2008, the Class A/B overcollateralization ratio was 70.09% — over 40% below the required overcollateralization value.

32. The calculation of the "Net Outstanding Underlying Asset Balance" is reliant upon S&P and Moody's ratings for the underlying asset-backed securities or Reference Obligations. GOC at 66-67. For example, Underlying Assets with an S&P rating of B+, B, or B- are valued at 80 percent of their actual aggregate principal/notional balance. Underlying

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Assets rated below B- are valued at 70 percent of their actual aggregate principal/notional balance. If the portion of Underlying Assets rated BB+, BB, or BB- exceeds 8.6 percent of the portfolio, then the aggregate principal/notional balance of such assets shall be deemed to be equal to 90 percent of the actual aggregate principal/notional balance. GOC at 67. The offering circular states that the S&P and Moody's ratings of the Class A-2 notes and Class B notes purchased by M&T would be AAA/Aaa and at least AA/Aa2, respectively. GOC at 22.

33. Thus, taken in its entirety, the offering circular makes clear that the Gemstone VII notes were marketed with an overriding emphasis on the S&P and Moody's ratings of the notes and the representations of safety and low risk conveyed by those ratings.

Representations in the Gemstone CDO Debt Investor Presentation

34. The February 8, 2007 Gemstone CDO "Debt Investor Presentation" ("DIP") contains a number of material representations. Some of these are set forth below.

- HBK is an "experienced CDO manager with a ***strong alignment of economic interest with investors***." DIP at 5 (emphasis added).
- HBK represented to M&T that it selected the collateral underlying the Gemstone VII CDO in three ways: (1) loans were screened, purchased from originators, and packaged into pools that were securitized in the form of bonds by investment banks working with HBK (such as Deutsche Bank); (2) HBK purchased new issue bonds after extensive loan-level due diligence; and (3) HBK purchased existing bonds on the secondary market. DIP at 29-30.
- "HBK's investment process integrates expertise in capital markets, structural analysis, collateral and loan-level analysis, due diligence, and in-house surveillance. ***HBK is seen as not as trader, but as a vigilant investor that maximizes value through intensive analysis and surveillance***." *Id.* (emphasis added).
- "Structured products [like the Gemstone VII CDO] exhibit relatively stable performance and low default history." . . . "Structured products

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[like the Gemstone VII CDO] have historically priced and continue to price wider than similarly rated due to liquidity and complexity premium that can be arbitraged through buy-and-hold cash flow CDO structure." DIP at 5. ***This is a statement that CDO products like Gemstone VII deliver higher returns at lower risk.***

- Page 14 of the DIP contains a chart entitled "Breakeven Analysis." It indicates that the cashflow waterfall of the Gemstone VII CDO produces enough excess interest ***to withstand cumulative losses of $517 million (47% of the original collateral balance)*** without any impact on interest or principal payments under the M&T notes. This represents that the notes were safe and secure investments.

- "HBK's Structured Products Group is one of the leading purchasers and long-term investors in credit sensitive mortgages . . . HBK's investment model utilizes ***proprietary*** default, prepay, and severity loan level models to make investments in the residential market. . . . HBK has retained 100% of the equity from CDO transactions ***resulting in strong alignment of interest between HBK and investors***." DIP at 23 (emphasis added).

- HBK "focus[es] on [the] new issue market" and "purchases loans directly from originators." DIP at 29. "HBK analyze[s] originators for underwriting consistency and [to] monitor changes to the competitive landscape." DIP at 29.

- HBK "conduct[s] ***due diligence of underlying loan collateral*** to formulate investment assumptions," and it develops loan level models, with delinquency and default forecasts, loss severity forecasts, and prepayment forecasts. DIP at 30 (emphasis added).

- HBK conducts ***"loan level due diligence and analysis"*** (DIP at 32), and HBK "aggressively pursues exit strategies when investments underperform, ***especially where fraud is a factor***" (DIP at 31) (emphasis added). HBK "monitors collateral performance and measures it to original and subsequent default on loss assumptions." *Id.* This represents that HBK will protect noteholders against originator and mortgagor fraud.

- HBK performs detailed ongoing due diligence, monitoring, and surveillance, together with analysis of the collateral to identify potential losses and to mitigate losses, all using proprietary analytical systems. DIP at 33-37.

- HBK's "proprietary Default/Prepay and Severity MSA-level model allows for predictive power of future deal performance. . . . HBK is able to pick up on trends ***before they adversely impact the CDO***." DIP at 41 (emphasis added).

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- "HBK works with dealers and originators to ***customize pools by kicking out problem loans.***" DIP at 41 (emphasis added). "Because all whole loan packages and every primary deal issued in the market is analyzed, in addition to our own ***loan level surveillance systems,*** HBK is able to pick up on trends before they adversely impact the CDO." DIP at 41 (emphasis added).

Oral Representations by DBSI and HBK

35. In conversations with M&T beginning in January 2007, DBSI salesman Sean Whelan touted the high quality of the Gemstone VII CDO and its management team, indicating that it was far superior to any other available CDO. Mr. Whelan also represented that HBK was an extraordinarily experienced purchaser of credit instruments, that HBK provided extremely high quality and low-risk credit management, that HBK had its own money in the Gemstone VII deal and that this protected M&T, and that the Gemstone VII collateral was very clean, *i.e.*, of high quality and safety.

36. Mr. Whelan also made the following representations to M&T:

a. In a February 6, 2007 conversation, Mr. Whelan represented that HBK does constant maintenance and surveillance on the market and makes numerous technological investments in its collateral evaluation and monitoring processes; that investing in Gemstone VII "was like a layup . . . it would've been my number 1 pick, and we're happy to be doing a deal for him."

b. In a February 7, 2007 phone call with M&T, Mr. Whelan explained the structure of Gemstone VII and said it will go extremely well.

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c. In a February 13, 2007 phone call with M&T, Mr. Whelan stated that "HBK . . . wouldn't buy stuff that didn't have good interest rate cap protection" and the "underlying structures in these bonds are built to withstand" adverse conditions.

d. In a February 14, 2007 phone call with M&T, Mr. Whelan "assures" M&T that "HBK understands where the market is," and he describes the Gemstone VII deal as being "in the upper end of good assets."

e. In a February 15, 2007 phone call with M&T, Mr. Whelan described the Gemstone VII deal as having no interest rate risk and no derivative risk, and generally low risk.

f. In a February 20, 2007 phone call with M&T, Mr. Whelan states that the Gemstone VII deal has $10 million of Class B notes left to sell, but the AAA mezz level is "two times over[sold] and fully rock solid."

37. On February 21, 2007, M&T purchased $82 million of Gemstone VII notes, in reliance on Whelan's representations, the representations in the Gemstone offering materials, the AAA/AA ratings of the notes, and the other representations concerning the notes made by defendants. On March 15, 2007, the Gemstone VII offering closed and the trades pursuant to which M&T purchased its Gemstone VII notes settled.

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The Facts Emerge

38. In early July 2007, only ***four months*** after the closing of the Gemstone VII CDO offering, the Gemstone VII notes were placed on negative "Credit Watch" for possible downgrade by S&P. This is strong evidence that the collateral underlying the notes was already impaired and deteriorating before M&T purchased the notes.

39. Beginning in spring 2007, the mortgage-backed bonds that serve as collateral for the Gemstone VII CDO began to suffer numerous and substantial downgrades in their S&P and Moody's ratings. This reflected the increasing default rate on the subprime mortgages underlying those bonds.

40. By July 2007, the subprime mortgage crisis was in full bloom. Housing prices had experienced substantial declines, subprime mortgage default rates were skyrocketing, the rating companies had downgraded a significant number of subprime mortgage-backed bonds and had placed a much larger number on "credit watch" for potential downgrade. Gemstone VII notes had been placed on credit watch for potential downgrade. Concerned about the deteriorating condition of the subprime market, M&T asked for a meeting with HBK.

41. On July 19, 2007, M&T met with Kevin Jenks of HBK. In the meeting, Mr. Jenks, who was HBK's senior collateral manager for Gemstone VII, provided analysis and expressed the conclusion that, while the overcollateralization cushion supporting M&T's notes was eroding, neither M&T's AAA rated note nor its AA rated note were at risk of losing principal or becoming delinquent in interest payments. Mr. Jenks also pointed out that, as the owner of the equity tranche, HBK controlled special servicing rights which allowed it to modify underlying loans, if necessary. HBK hired third-party loan reviewers, such as Clayton Holdings,

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to conduct due diligence on any loan that is delinquent for 60 days or more. Mr. Jenks stated that if fraud is uncovered, HBK will force the originator to re-purchase the loan. Mr. Jenks further represented that while some subprime originators lack the financial strength to do so, many originators were still (as of July 2007) able to do so. This information was presented to HBK as proof that its Gemstone VII notes continued to be safe and secure.

42. Prior to purchasing the Gemstone VII notes, M&T was advised by DBSI that it had conducted a stress test concluding that M&T's AA rated Class B note could withstand up to a 14.5% constant default rate with a 50% severity before losing a dollar of principal.[1] Obviously, the AAA rated Class A-2 notes could withstand an even higher default level without losses. This information was presented to M&T as support for DBSI's representation that the Gemstone VII notes were safe, secure, and nearly risk-free. At the July 19, 2007 meeting, Mr. Jenks stated that a 14.5% constant default rate was far greater than projected by HBK, even as of July 2007. HBK predicted an 8% constant default rate, with a 35% severity. Mr. Jenks represented to M&T that would not come close to generating losses for the AA rated notes.

43. On September 21, 2007, Alexander Craig, M&T's Administrative Vice President and Portfolio Manager, met with the new collateral manager for the Gemstone VII CDO, Marco Lukesch. The original collateral manager, Mr. Jenks, had been fired. Upon information and belief, Mr. Jenks was fired because of the disastrous performance of the Gemstone CDOs and, in particular, the Gemstone VII CDO. At the September 21, 2007 meeting, Mr. Lukesch described HBK's business model as: buy a pool of loans, securitize it

[1] The "constant default rate" is the percentage of underlying collateral (bonds backed by subprime mortgages) defaulting on an annual basis. "Severity" is the percentage of principal lost, on average, as a result of defaults. For example, a 35% severity indicates that 65% of the principal amount of defaulted collateral is recovered, by foreclosure and sale or otherwise.

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with a Wall Street investment banker, sell the AAA through A bonds, buy the BBB bonds into a CDO, and retain the equity tranche at HBK.

44. At the same meeting, ***Mr. Lukesch disclosed for the first time that HBK had been fighting with one of its largest subprime mortgage originators, Fremont General Corp. ("Fremont"), for 9 months,*** that it had a large number of claims against Fremont and had scheduled a four-day long meeting with it for early October 2007. The disputes with Fremont related to the representations and warranties Fremont provided on loans it originated: it agreed to repurchase loans that defaulted in the first 60 days and loans made on the basis of fraudulent representations by the borrower (usually relating to the borrower's employment status, income, or intention to occupy the mortgaged premises). In essence, the basis of HBK's demands that Fremont repurchase large numbers of loans underlying the Gemstone VII CDO collateral was that these loans did not meet the standards represented to Gemstone VII investors.

45. Mr. Lukesch also stated that ***HBK had been fighting with a total of five originators from which it had purchased loans for the Gemstone CDOs, and that these disputes related to loans that defaulted from the third quarter of 2006 through December 2006.***

46. This information had previously been concealed by HBK and DBSI from M&T, and M&T could not, in the exercise of reasonable diligence, have learned it earlier. These admissions by Mr. Lukesch established that HBK knew in late 2006 — well before the sale of the Gemstone VII notes to M&T — that there were major quality and default problems with the subprime loan collateral underlying the Gemstone CDOs, including the Gemstone VII CDO. In addition, prior to M&T's purchase of the Gemstone VII notes, HBK had major disputes with its

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top originators about loan quality and repurchase obligations — indicating that the originators could not be relied on to provide conforming subprime loans or to honor their repurchase obligation with respect to nonconforming loans. Thus, the Gemstone VII notes were much riskier than represented to investors.

47. This was material information that HBK failed to disclose and affirmatively concealed from M&T. Upon information and belief, DBSI, Deutsche Bank Trust, and Deutsche Bank AG were aware of this information due to their proprietary involvement in the prior Gemstone CDOs and their constant communication with HBK. DBSI, Deutsche Bank Trust, and Deutsche Bank AG also failed to disclose and concealed this information from M&T. If M&T had been aware of this information, it would not have purchased the Gemstone VII notes.

48. Upon information and belief, defendants failed to disclose and concealed from the rating agencies the quality and default problems defendants were experiencing with subprime collateral under their control in late 2006 and early 2007. Defendants also failed to disclose and concealed from the rating agencies the problems they were having with subprime originators refusing to honor their repurchase obligations. Upon information and belief, if this information had been disclosed to the rating agencies, the notes purchased by M&T would have been rated lower than AAA and AA, and M&T would not have purchased them.

49. By October 31, 2007 (less than eight months after the Gemstone VII CDO closed), over 53 bonds (of approximately 105 owned by the Gemstone VII CDO) had been downgraded; 24 were listed by the trustee as in default, as defined in the Gemstone VII offering materials.

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50. On October 25, 2007, M&T had a phone call with Sean Whelan (DBSI salesman) and Richard Parkus (DBSI analyst). They were negative on the performance of and prospects for the Gemstone VII notes. Parkus indicated his belief that the rating agency loss projection models used to rate M&T's Gemstone VII notes as AAA/AA were simply wrong. He further indicated that there was much greater correlation (and therefore less risk-reducing diversification) among the subprime collateral than had been believed. He questioned whether the Gemstone VII CDO or subprime CDOs in general should have been sold at all.

51. On November 21, 2007, the Gemstone Class B notes were downgraded by S&P from AA to BBB- and the Gemstone Class A-2 notes were downgraded from AAA to AA-.

52. In December 2007, M&T reviewed the status of its investment in the Gemstone VII notes. It sought bids from specialists in an effort to establish a market value for the notes. Based on that effort, M&T wrote down the value of its Gemstone VII notes from $82 million to $1.87 million — a loss of over 95% of the notes' original purchase price in only nine months. As of April 30, 2008, M&T carried its Gemstone VII notes on its books at a value of $1.031 million.

53. On February 5, 2008, less than one year after M&T purchased its notes, the Class B notes were further downgraded to CC and the Class A-2 notes were downgraded to CCC-. An S&P rating of CC means the note "is highly vulnerable to nonpayment." An S&P rating of CCC- means the note is "currently vulnerable to nonpayment" and that "[i]n the event of adverse business, financial, or economic conditions, the obligor is not likely to have the capacity to meet its financial commitment on the obligation." The minus sign indicates that the note is at the low end of this rating, close to the CC "highly vulnerable" category. By April 28,

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2008, Moody's had downgraded the Gemstone VII Class A-2 notes (originally rated Aaa) to Ca and had downgraded the Class B notes (originally rated Aa2) to Ca.

54. As of April 30, 2008, the Gemstone VII collateral bonds had suffered 167 separate downgrades by S&P and 202 separate downgrades by Moody's. The trustee listed as in default 58 bonds with a face value of over $498 million. The April 30, 2008 trustee's report listed the "Principal Recovery" value of those bonds as $13.6 million — less than 3% of their original value.

55. The radical and rapid downgrade of M&T's notes from the highest possible safety/quality ratings to "junk" status demonstrates that the collateral supporting the notes was impaired and deteriorating prior to M&T's purchase of the notes. HBK and DBSI knew or acted recklessly in failing to know this because:

a. HBK represented that it had performed extensive loan-level due diligence on the collateral, with proprietary state-of-the-art analytical tools.

b. HBK represented that it was carefully monitoring the collateral and would take action to avoid losses by putting non-conforming loans back to originators.

c. The Gemstone offering materials represent that the collateral was owned by and would be purchased from (in part) DBSI and HBK and their affiliates.

56. On January 17, 2008, media reports were published indicating that the

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New York Attorney General had reached a deal with Clayton Holdings under which Clayton agreed to cooperate with an investigation into the activities of issuers and underwriters of subprime mortgage-backed securities. Clayton Holdings was the largest provider of subprime loan due diligence services to securitizers and subprime mortgage loan purchasers. The Attorney General is investigating whether issuers and underwriters were aware that the pools of subprime mortgages underlying subprime-backed securities were impaired at the time of sale, whether the ratings assigned to subprime-backed securities were inflated, and whether issuers and underwriters withheld information from the rating agencies that would have materially changed the evaluation of these securities. DBSI was one of Clayton's two largest clients, and HBK was a client of Clayton's as well.

57. HBK advised M&T that Clayton reviewed the subprime loans underlying the Gemstone VII notes.

M&T's Claims

58. M&T's claims are based on the material misrepresentations, inaccuracies, omissions, breaches of duty, and breaches of contract by defendants in connection with structuring, marketing, and selling the Gemstone VII CDO. Some of the principal acts of wrongdoing are described below.

59. On an overall basis, the Gemstone offering materials and the DBSI and HBK sales materials and oral statements, all represented that the notes purchased by M&T were high quality, safe, secure, and nearly risk-free. This was conveyed by means of the AAA/AA ratings, the representation that up to 47% of principal could be lost without impacting the notes, the description of extensive loan-level due diligence and aggressive and innovative collateral

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monitoring and management, and the description of the collateral as "diversified," among other things. It is now clear that the representations of safety, security, and low risk conveyed by the Gemstone offering materials and the associated oral statements were false.

60. By the fourth quarter of 2006, at the latest, HBK and DBSI and its affiliates were experiencing substantial problems with non-performing subprime loans that were collateral for the earlier Gemstone CDO deals. They were involved in disputes with at least five subprime mortgage originators about the originators' refusal to honor their contractual obligations to repurchase non-conforming and defaulted loans. Thus, HBK and DBSI and its affiliates had knowledge that the subprime loans purchased from the group of originators they dealt with had quality problems that were resulting in rapidly rising defaults, materially different than the statistical experience from 2003, 2004, and 2005. Yet HBK and DBSI failed to respond by appropriately modifying their default and loss projection models, their due diligence, and their collateral management and administration practices. Accordingly, prior to M&T's February 21, 2007 purchase of the Gemstone VII notes, HBK and DBSI and its affiliates knew that their default and loss projection models were wrong and that their due diligence and collateral management administration practices were inadequate to provide the safety and security that they had represented for the Class A and Class B Gemstone VII notes. None of this information was disclosed to M&T during the sales process for the Gemstone VII notes.

61. The Gemstone VII offering circular discloses that bonds for the collateral pool are purchased from DBSI (or its affiliates) and/or HBK. Upon information and belief, the subprime loans underlying the bonds sold by HBK and DBSI to Gemstone VII were the subject of large numbers of pending repurchase demands to originators. HBK and DBSI failed to

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disclose this material information to M&T. This constituted an undisclosed conflict of interest and fraudulent self-dealing.

62. Clayton Holdings is the largest provider of due diligence services reviewing and evaluating mortgage loans for securitizations. Media reports have stated that Clayton began noting, and reporting to securitizers, substantial deterioration in the quality of subprime mortgages as early as the second half of 2005, with problems increasing throughout 2006. For example, the New York Times reported this in a January 27, 2008 article entitled: *Loan Reviewer Aiding Inquiry Into Big Banks.* On January 28, 2008, the Wall Street Journal published a similar article, entitled: *Due Diligence Firm to Aid New York Subprime Probe.*

63. The increasing deterioration of subprime mortgage quality was measured by the percentage of loans categorized by Clayton as "exception loans." An "exception loan" was a loan that did not meet the originator's underwriting standards. With regard to subprime loans, this frequently occurred because the required borrower documentation had not been obtained or because the borrower misrepresented his income, employment status, or intent to occupy the premises. DBSI and its affiliates were among Clayton's largest customers. HBK was also was a customer of Clayton's. Upon information and belief, in 2006, Clayton provided due diligence reports to HBK and DBSI (or its affiliates) that reflected steeply increasing levels of subprime exception loans, fraud, and defaults, and sharply deteriorating subprime loan quality and underwriting. As a result, HBK and DBSI (and its affiliates) had knowledge even before 2007 that the subprime collateral being assembled for the Gemstone VII CDO was deteriorating and impaired. This was not disclosed to M&T. If it had been, M&T would not have purchased the Gemstone VII notes.

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64. HBK and DBSI and its affiliates were aware that the loss projection models used in structuring and rating the Gemstone VII CDO tranches and in making the representations set forth in the Gemstone offering materials regarding overcollateralization and credit protection were false. These loss projection models were not modified to properly take account of the deteriorating subprime mortgage market. This was material information that was not disclosed to M&T. If it had been, M&T would not have purchased the Gemstone VII notes.

65. HBK and Deutsche Bank were aware that the ratings assigned to the Gemstone VII CDO tranches and the underlying bonds were inaccurate and inflated and did not accurately represent the level of risk associated with those tranches and bonds. The rating agencies have stated publicly that they were not provided with the Clayton due diligence reports when rating subprime mortgage-backed CDOs and that they would have considered those reports material. Moody's has stated that "the completeness and veracity [of the information provided by subprime issuers to the rating agencies] was deteriorating" in 2006. *Inquiry Focuses on Withholding of Data on Loans,* New York Times, January 12, 2008; *Loan Reviewer Aiding Inquiry Into Big Banks,* New York Times, January 27, 2008.

66. The HBK/DBSI Debt Investor Presentation contains specific and positive representations about the performance of prior Gemstone deals. Because HBK and DBSI were already involved in repurchase disputes with their major originators, these representations were misleading, incomplete, and false at the time they were made.

67. The Gemstone offering materials provided to M&T (particularly, the Debt Investor Presentation) contain detailed representations regarding HBK's due diligence with regard to the collateral underlying the Gemstone VII CDO. These include representations that

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HBK "builds" the bond collateral from the bottom up, assembling and evaluating the specific loans and loan pools underlying the bonds. The DIP also indicates that HBK has in place proprietary processes for review and evaluation of loans and that it "kicks back" problem loans to originators before they even enter the pool underlying the bonds purchased for the CDO collateral. Finally, the DIP indicates that HBK may purchase some of the bonds on the open market, but that it will first conduct careful due diligence with regard to the loan pools underlying those bonds. Given the fact that the Gemstone VII subprime collateral began to perform poorly almost immediately after the March 15, 2007 settlement date, it is clear that HBK did not conduct the represented due diligence or that it conducted it and found quality problems with the loan pools, but nevertheless incorporated those loans into the Gemstone VII CDO, without disclosing this to M&T.

68. The Gemstone offering materials repeatedly refer to the collateral underlying the Gemstone CDO as a "diversified portfolio of interests in asset-backed securities." *See, e.g.*, GOC at 5. This represents, among other things, that while there may be losses in individual bonds, there will be no strong correlation in losses among the various bonds in the pool. Loss correlation across the bonds in the Gemstone VII CDO turned out to be very high. It is now evident that the bonds were not truly diversified. They were not appropriately geographically diversified to reduce risk, and they all had common characteristics that made them likely to experience correlated poor performance. All of the bonds, and their underlying loans, were dependent on continued and uninterrupted home price appreciation to avoid default or underperformance. As a result, the bonds were highly correlated and were not diversified, contrary to the false representations in the Gemstone offering materials.

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69. M&T learned for the first time in September 2007 that HBK (through an affiliate) owned a major portion of the Class A-1b notes (designated as the "Controlling Class" in the offering circular). M&T learned for the first time in late May 2008 that DBSI owned the balance of the Class A-1b notes. This was material information because it indicates that HBK and DBSI were not able to sell the Controlling Class A-1b notes to outside, independent investors who did not have a proprietary interest in the success of the deal. Instead, DBSI and HBK were required to intervene and purchase the Class A-1b notes themselves to "save" the deal. This information was not disclosed to M&T. If M&T was aware of this, it would not have purchased the Gemstone VII notes.

70. In addition, the Gemstone offering materials contain numerous representations that HBK's financial interests are aligned with the interests of the noteholders, because HBK purchased the equity tranche, which is the lowest rated tranche and the first to suffer loss. In fact, while HBK invested $18.7 million in the Gemstone VII equity tranche, it owned (together with DBSI) $400 million of Class A-1b notes which carry the "Controlling Class" rights and are senior to M&T's Class A-2 and Class B notes. The interests of the Class A-1b noteholders are in conflict with M&T's interests in a default or liquidation scenario because the Class A-1b noteholders have the unilateral right upon an Event of Default to direct that all of the Gemstone VII collateral be sold and that the proceeds be distributed in accordance with certain Event of Default priorities. In that circumstance, it is highly likely that M&T's Class A-2 notes would be paid very little of its outstanding principal and that the Class B note would be paid nothing. This puts the Class A-1b noteholders in conflict with the Class A-2 and Class B noteholders because its interest could be to liquidate the collateral quickly, before further losses, while the Class A-2 and Class B noteholders would prefer to hold the collateral in the

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hope that the mortgage market might recover — or at least to continue sharing in interest distributions (which are cut off on liquidation). The conflict of interest of HBK and DBSI, as owners of Class A-1b "Controlling Class" notes, was not disclosed to M&T, and M&T would not have purchased the Gemstone VII notes if it had been.

71. In addition, the fees (approximately $3.1 million per year) and other compensation due to HBK in connection with the Gemstone VII CDO over the life of the CDO far exceeded the value of its equity tranche. This is another way in which HBK's interests conflicted with M&T's.

72. On April 18, 2008, Deutsche Bank Trust issued notice to Gemstone VII noteholders that an Event of Default had occurred. The Gemstone VII CDO failed the Class A-1 overcollateralization test, which provides that if the Class A-1 overcollateralization ratio (as computed pursuant to a formula in the GOC) falls below 100%, an Event of Default occurs. Thus, as of March 31, 2008, the interests of M&T and HBK were concretely adverse in a way that was concealed from M&T at the time it purchased the Gemstone VII notes.

73. Pursuant to section 10.10(b) of the Gemstone VII Indenture, the Issuers were required to obtain a Note Valuation Report from an independent accountant on an annual basis. The 2007 report was due on March 13, 2008 under the terms of section 10.10(b). The Note Valuation Report is required to include detailed information about the performance of the Gemstone VII notes and the underlying collateral. The Issuers are currently in default of their obligations to provide a Note Valuation Report by an independent accountant; the report is nearly three months overdue. This reflects that defendants continue to withhold material information from M&T.

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74. Reports published by S&P and Moody's over the last nine months have revealed facts that are contrary to the HBK/DBSI claims in the DIP that rigorous loan-level due diligence was conducted and that poor quality loans were identified and eliminated from the loan pools underlying the Gemstone VII collateral.

a. Gemstone VII was placed on credit watch by S&P in early July 2007 — only ***four months*** after the deal closed. *See S&PCorrect: Global CDO Deals Exposed to Subprime RMBS Reviewed*, July 10, 2007.

b. S&P published a report questioning the "data quality" provided during the rating process by CDO issuers. S&P's analysis indicates that it was provided with inaccurate information "regarding the loan and borrower characteristics" (including FICO scores, LTV, ownership status, etc.).[2] The same report states that underwriting standards declined and misrepresentations increased "in excess of historical precedents and our initial assumptions" with respect to 2006 subprime loan originations. *S&PCorrect: 612 U.P.S. Subprime RMBS Classes Put on Watch Neg; Methodology Revisions Announced*, July 11, 2007. This supports the position that issuers were aware of the declining quality of subprime mortgages but did not disclose it to the ratings agencies.

[2] A "FICO score" is a method of rating borrower ability to pay. "LTV" is the loan to value ratio, a measure of the likelihood that the mortgage collateral may be sufficient in the event of default.

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c. The same S&P report states that S&P's rating methodology for subprime CDOs was revised such that "a higher degree of correlation will be used" in evaluating risk of subprime bonds. This shows that the diversification and non-correlation assumptions underlying the Gemstone VII CDO were false.

d. S&P has reported that "almost 65% of the bonds and indexes that track subprime mortgage debt don't meet the ratings criteria in place ***when they were sold***." In addition, "of the 300 bonds and ABX indexes . . . 190 failed to meet the credit support standard" associated with their ratings and "115 of 120 securities in the BBB or BBB- rated portions of the mortgage-backed securities would have failed S&P's criteria." *S&P, Moody's Masking $200 Billion of Subprime Bond Risk* (Bloomberg, June 29, 2007). This indicates that the ratings assigned to subprime bonds and tranches of subprime CDOs were inaccurate and did not reflect the true level of risk associated with those investments.

e. Even today, the ratings associated with subprime bonds and CDOs are inflated and inaccurate. A recent Bloomberg article indicates that "all but 6 of the 80 AAA [bonds underlying the ABX index] failed an S&P test for investment-grade status, which requires credit support to be twice the percentage of troubled collateral." *Moody's, S&P Defer Cuts on AAA Subprime, Hiding Loss*

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(Bloomberg, March 11, 2008). The same article identified, as an example, Deutsche Bank Bond ACE 2005-HE-7 A2D, which was rated AAA in early March 2008, even though 43% of the underlying mortgages were delinquent, 18% of its loans were in foreclosure, 15% of the properties have been seized by lenders, and about 10% had been delinquent for more than 90 days. When this bond was created, Moody's and S&P required capital support to cover a loss rate of no more than 7% for the last three loss categories combined.

f. Subprime bonds issued in 2006 and early 2007 were the "worst performing ever." *Subprime Mortgages Slipping Into Default at a Rapid Pace* (International Herald Tribune, October 8, 2007). This shows that underwriting standards were materially relaxed in 2006 without disclosure to investors and that the quality of loans underlying subprime securities substantially deteriorated during that timeframe, again without disclosure.

75. Other media reports have disclosed additional relevant information reflecting that defendants' representations relating to mortgage quality and due diligence were false.

a. Clayton Holdings, the largest subprime loan due diligence provider and a vendor for HBK and DBSI, estimates that in 2006, 30% of the loans included in securitized portfolios were "exception" loans

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(*i.e.*, nonconforming loans which did not meet underwriting standards often due to indicia of fraud); some securitizations contained more than 50% exception loans. *The Securitization Bubble* (National Law Journal, March 17, 2008).

b. Some investment bank securitizers entered into agreements with originators that no more than 2.5% of subprime loans offered for sale would be rejected. *Auditor: Supervisors Covered Up Risky Loans* (National Public Radio Website, May 28, 2008).

c. Between 2001 and 2006, the number of loan review contractors working for Clayton rose from 150 to 900. Clayton's revenues rose from $19 million in 2000 to $239 million in 2006. This sort of growth indicates declining quality of the due diligence reviews that were being conducted. *Sub-Prime Mortgage Watchdogs Kept on Leash* (L.A. Times, March 17, 2008). "As time passed, Clayton executives said, Wall Street firms and their investor customers accepted increasing levels of default and fraud in subprime loans as they grew to trust software designed to offset those risks by charging higher interest rates. . . ." *Id.* These increased risks were not disclosed. This is especially misleading in view of the fact that Gemstone VII was marketed by emphasizing the performance of earlier Gemstone deals, which utilized stricter underwriting standards.

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d. "Early in the decade, a securities firm might have asked Clayton to review 25% to 40% of the sub-prime loans in a pool, compared with typically 10% in 2006." *Id.* "Loan buyers who kept the mortgages as an investment instead of packaging them into securities would have 50% to 100% of the loans examined." This shows that underwriting standards declined dramatically in 2006, which was not disclosed to M&T, and that the due diligence representations in the HBK/DBSI offering materials were misleading. It would also show that using the performance of the earlier Gemstone deals to market the Gemstone VII CDO was misleading and fraudulent.

e. Early in the decade, originators would not make subprime loans for more than 80% of a property's value. During 2006, loans for 100% of the home's value were common. *Id.* This decline in underwriting standards was clearly known to HBK and DBSI, but was not disclosed.

f. Adjustable Rate Mortgages: Almost all of the major subprime originators, including those used by HBK and DBSI, evaluated borrowers' "ability to pay" solely on their ability to pay the initial "teaser" rates. Many borrowers were demonstrably unable to pay at the re-set rates. This risk was not disclosed in the Gemstone offering materials. HBK's representations regarding "loan-level"

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due diligence indicates that it should have identified, disclosed, and mitigated any risks of this type. There are no disclosures in the Gemstone offering materials regarding the risks attendant to ARM re-sets and whether borrowers will be able to pay the higher rates. Recent media reports have forecast massive defaults in mid-2008 because of borrowers' inability to pay re-set, higher rates. If these risks had been disclosed to M&T, it would not have purchased the Gemstone VII notes.

76. If M&T had been aware of the true facts regarding the Gemstone VII notes, the underlying collateral, the due diligence and underwriting practices relating to the collateral, the ratings of the Gemstone VII notes, the dependence of the notes on continued home price appreciation, the earlier Gemstone deals, or the other matters discussed above, M&T would not have purchased the notes.

77. M&T acted with reasonable diligence in connection with its purchase of the Gemstone VII notes. A reasonably diligent investor would not have discovered defendants' misrepresentations or omissions relating to the notes.

78. M&T's damages from its investment in the Gemstone VII notes were directly caused by the very matters that defendants misrepresented, omitted, and failed to truthfully and completely disclose.

FIRST CAUSE OF ACTION
(Common Law Fraud)

79. Repeats the allegations in paragraphs 1 through 78.

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80. As described above, the Gemstone offering materials contain numerous material misrepresentations and omissions. In addition, DBSI and HBK made numerous material oral misrepresentations and omissions to M&T in connection with the Gemstone VII notes, many of which are set forth above in paragraphs 12 and 30-36.

81. Gemstone Ltd. and Gemstone Corp. (as issuers of the Gemstone VII notes) are directly responsible and liable for these misrepresentations and omissions. DBSI, as the broker-dealer that sold the notes directly to M&T, and HBK, as the Collateral Manager, drafted the Gemstone offering materials and directly solicited M&T to purchase the notes. They are liable for their oral misrepresentations and omissions and the misrepresentations and omissions in the Gemstone offering materials. The misrepresentations and omissions by Gemstone Ltd., Gemstone Corp., DBSI, and HBK Investments were intentional and were made with knowledge of their falsity or were (at the very least) reckless.

82. M&T justifiably relied on the misrepresentations described above. The Gemstone VII CDO is an extraordinarily complex financial instrument. It would not have been possible to discover defendants' misrepresentations and omissions without extensive expertise, and unreasonable expenditure of resources to analyze the Gemstone VII CDO and the collateral, all of which M&T justifiably relied on defendants to do. Indeed, defendants solicited M&T to purchase the notes specifically on the basis of their expertise in conducting this sort of due diligence and analysis and sold the fact that investors could rely on them rather than conduct such due diligence themselves.

83. HBK Partners and HBK Management, as general partners of HBK, are liable for HBK's fraud.

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84. As a result of the foregoing, M&T is entitled to judgment directing rescission of its purchase of the Gemstone VII notes and directing return to M&T of the purchase price of the notes, together with interest. M&T hereby tenders the notes to DBSI.

85. In the alternative, as a result of the foregoing, Gemstone Ltd., Gemstone Corp., DBSI, , HBK, HBK Partners, and HBK Management are liable to M&T in an amount sufficient to compensate for the damages suffered by M&T as a result of their fraud, which amount exceeds $82 million.

86. In addition, because the fraud of DBSI, Gemstone Corp., Gemstone Ltd., and HBK was intentional, willful, and malicious, M&T is entitled to an award of punitive damages in an amount exceeding $100 million.

SECOND CAUSE OF ACTION
(Aiding and Abetting Common Law Fraud)

87. Repeats the allegations in paragraph 1 through 86.

88. As described in paragraphs 4-5, 19-20, 23, 65, and 69 above, Deutsche Bank Trust, the trustee of the trusts which purchased and held the Gemstone VII collateral, and Deutsche Bank AG, the counterparty on the credit default swaps, provided substantial and material assistance to advance the fraud described in the first cause of action.

89. Because of their affiliation with DBSI and their close, ongoing business relationship with HBK, Deutsche Bank Trust and Deutsche Bank AG had knowledge of the fraud described in the first cause of action and intentionally assisted in its commission.

90. Deutsche Bank Trust and Deutsche Bank AG are liable to M&T for the

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damage caused by their unlawful conduct, in an amount exceeding $82 million.

91. In addition, because the unlawful conduct of Deutsche Bank Trust and Deutsche Bank AG was intentional, willful, and malicious, M&T is entitled to an award of punitive damages in an amount exceeding $100 million.

THIRD CAUSE OF ACTION
(Negligent Misrepresentation)

92. Repeats the allegations in paragraphs 1 through 91.

93. Gemstone Ltd., Gemstone Corp., DBSI, and HBK were each aware that its misrepresentations and omissions would be used and relied on by M&T in determining to purchase the Gemstone VII notes.

94. Gemstone Ltd., Gemstone Corp., DBSI, and HBK intended that M&T rely on their misrepresentations and omissions in purchasing the Gemstone VII notes, and M&T did so. If M&T had been aware of the true facts regarding the Gemstone VII notes, the underlying collateral, the dependence of the notes on continued home price appreciation, and the due diligence and underwriting practices relating to the collateral, it would not have purchased the notes.

95. DBSI was the direct seller of the Gemstone VII notes to M&T. HBK, as Collateral Manager for the Gemstone Trust, owed a fiduciary duty to M&T. As issuers of the Gemstone VII notes, Gemstone Ltd. and Gemstone Corp. have a direct contractual relationship with M&T. DBSI and HBK communicated directly with M&T (on behalf of themselves and Gemstone Ltd. and Gemstone Corp.) in making the misrepresentations and omissions described above, in soliciting M&T to purchase the Gemstone VII notes in reliance on their

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misrepresentations and omissions, and in procuring and consummating the sale of the Gemstone VII notes based on their misrepresentations and omissions.

96. As a result of the foregoing, M&T is entitled to judgment directing rescission of its purchase of the Gemstone VII notes and directing return to M&T of the purchase price of the notes, together with interest. M&T hereby tenders the notes.

97. In the alternative, as a result of the foregoing, Gemstone Ltd., Gemstone Corp., DBSI, and HBK are liable to M&T in an amount sufficient to compensate for the damage caused by their unlawful conduct, which amount exceeds $82 million.

98. HBK Partners and HBK Management, as general partners of HBK, are liable for its negligent misrepresentations.

FOURTH CAUSE OF ACTION
(Breach of Fiduciary Duty)

99. Repeats the allegations in paragraphs 1 through 98.

100. M&T, as an owner of two of the Gemstone VII notes, is a beneficiary of the Gemstone Trust. Deutsche Bank Trust, as trustee of the Gemstone Trust, owes a fiduciary duty to M&T.

101. HBK, as collateral manager for the Gemstone Trust, owes a fiduciary duty to the Gemstone VII noteholders, including M&T.

102. Deutsche Bank Trust and HBK breached their fiduciary duties to the Gemstone VII noteholders, including M&T, by, among other things, failing to properly monitor the collateral and mitigate losses to the Trust, and by failing to disclose known quality and

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performance problems with the subprime loans underlying the collateral and thereby aiding and abetting the fraud of the primary wrongdoers identified in the first cause of action. Finally, HBK breached its fiduciary duties to M&T by making the misrepresentations and omissions referenced in the first cause of action.

103. HBK Partners and HBK Management, as general partners of HBK, are liable for HBK's breaches of fiduciary duty.

104. Deutsche Bank Trust, HBK, HBK Partners, and HBK Management are liable to M&T for the damage caused by their breaches of fiduciary duty, in an amount exceeding $82 million.

105. In addition, M&T is entitled to an accounting of all amounts received by HBK and Deutsche Bank Trust from M&T or in connection with the Gemstone VII notes, together with judgment imposing a constructive trust on all such amounts for the benefit of M&T.

106. In addition, because the breaches of fiduciary duty by Deutsche Bank Trust and HBK were intentional, willful and malicious, M&T is entitled to an award of punitive damages in an amount exceeding $100 million.

FIFTH CAUSE OF ACTION
(Aiding and Abetting Breach of Fiduciary Duty)

107. Repeats the allegations in paragraphs 1 through 106.

108. DBSI, as seller of the Gemstone VII notes, and Deutsche Bank AG, as counterparty on the credit default swaps, aided and abetted the breaches of fiduciary duty by

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Deutsche Bank Trust and HBK by knowingly providing material assistance to such breaches of fiduciary duty.

109. DBSI provided that assistance by purchasing the Gemstone VII notes and offering them for sale in an unregistered offering, purportedly under SEC Rule 144A. In addition, the Gemstone offering materials (published in the name of DBSI, among others) were materially false. DBSI was aware of this and participated in making the misrepresentations and omissions contained in those offering materials.

110. Deutsche Bank AG assisted with the breaches of fiduciary duty of Deutsche Bank Trust and HBK by providing $600 million of collateral through the credit default swaps. The Reference Obligations underlying the credit default swaps were subject to the same misrepresentations and omissions regarding inflated ratings, quality and performance, exception loans, dependence on continued home price appreciation, and due diligence and underwriting, as were the cash bonds discussed above. As counterparty on the credit default swaps, Deutsche Bank AG was aware of these misrepresentations and omissions and failed to disclose them. Deutsche Bank AG was aware that its conduct provided material and substantial assistance to Deutsche Bank Trust and HBK in breaching their fiduciary duties.

111. DBSI and Deutsche Bank AG are liable to M&T for the damages caused by their unlawful conduct, in an amount exceeding $82 million.

SIXTH CAUSE OF ACTION
(Breach of Contract)

112. Repeats the allegations in paragraph 1 through 111.

113. On February 21, 2007, M&T and DBSI entered into a contract pursuant to

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which M&T purchased, and DBSI sold, the Gemstone VII notes. It was a material term of that contract that the representations made orally by DBSI and HBK and set forth in writing in the Gemstone offering materials were true and correct and that all material information had been disclosed to M&T. DBSI breached its contract with M&T, and breached its implied covenant of good faith and fair dealing in connection with that contract, because the representations made in connection with the sale of the notes were false and DBSI failed to disclose material information to M&T, including without limitation the fact that the notes were a high-risk bet that housing prices in the United States would continue to rise, the fact that the collateral underlying the notes was low-quality and impaired, the fact that the due diligence and monitoring of the Gemstone VII collateral was inadequate, the fact that the loss projection and default models used in the Gemstone VII CDO were unreliable and wrong, the fact that the ratings of the notes were falsely inflated, and the fact that the tranched structure of the notes did not confer the safety benefits represented by DBSI.

114. Deutsche Bank Trust entered into a Indenture Agreement, dated as of March 15, 2007 (the "Indenture") with Gemstone Ltd. and Gemstone Corp. The Indenture Agreement provided, among other things, the terms on which Deutsche Bank Trust acted as trustee of the Gemstone VII collateral. As a Gemstone VII noteholder, M&T was a third-party beneficiary of the Indenture.

115. Under the Indenture, Deutsche Bank Trust agreed, expressly and/or impliedly, to disclose all material information to M&T and that it would exercise its rights under the Indenture and associated agreements (including without limitation the Management Agreement) to protect M&T's interests as a noteholder. Deutsche Bank Trust breached its

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contractual obligations under the Indenture, because it did not remove HBK as collateral manager or require HBK to mitigate losses under the Indenture by selling collateral. In addition, HBK breached its obligations under the Indenture by failing to disclose to M&T that the ratings of the Gemstone VII collateral were inflated, the known quality and performance problems with the collateral, that the due diligence and monitoring of the Gemstone VII collateral was inadequate, that the loan loss and default projection models used in the Gemstone VII CDO were unreliable and wrong, and that the collateral was dependent on continued home price appreciation. This conduct also constituted a breach of Deutsche Bank Trust's obligation of good faith and fair dealing under the Indenture.

116. DBSI and Deutsche Bank Trust are liable to M&T for the damages caused by their breaches of contract, in an amount exceeding $82 million.

SEVENTH CAUSE OF ACTION
(General Business Law § 350)

117. Repeats the allegations in paragraphs 1 through 116.

118. The Gemstone offering materials constituted "advertising" under General Business Law § 350. The Gemstone offering materials were prepared and used to solicit investors by defendants Gemstone Ltd., Gemstone Corp., DBSI, and HBK. As discussed above, those materials were materially misleading.

119. The conduct of DBSI and HBK in issuing the Gemstone offering materials violated General Business Law § 350.

120. Gemstone Ltd., Gemstone Corp., DBSI, and HBK are liable to M&T for the damages caused by their unlawful false advertising, in an amount exceeding $82 million.

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121. The conduct of Gemstone Ltd., Gemstone Corp., DBSI, and HBK in violating General Business Law § 350 was intentional willful and malicious. As a result, they are liable to M&T for punitive damages in an amount exceeding $100 million.

EIGHTH CAUSE OF ACTION
(General Business Law § 349)

122. Repeats the allegations in paragraph 1 through 121.

123. The Gemstone offering materials were materially misleading, as set forth above.

124. The sale of the Gemstone VII notes was within the scope of General Business Law § 349. It was not an individually negotiated transaction. Upon information and belief, the notes were offered to a wide variety of different purchasers on uniform terms that were not subject to negotiation.

125. The misrepresentations and material omissions in the Gemstone offering materials were likely to (and did) mislead reasonable purchasers acting reasonably under the circumstances.

126. The conduct of Gemstone Ltd., Gemstone Corp., DBSI, and HBK, in soliciting investors and offering the Gemstone VII notes through use of the Gemstone offering materials was in violation of General Business Law § 349.

127. Gemstone Ltd., Gemstone Corp., DBSI, and HBK are liable to M&T for the damages caused by their unlawful conduct, in an amount exceeding $82 million.

128. The conduct of Gemstone Ltd., Gemstone Corp., DBSI, and HBK in

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violating General Business Law § 349 was intentional willful and malicious. As a result, they are liable to M&T for punitive damages in an amount exceeding $100 million.

NINTH CAUSE OF ACTION
(Rescission of Contract)

129. Repeats the allegations in paragraphs 1 through 128.

130. As a result of the material misrepresentations and omissions described above, M&T is entitled to judgment rescinding the contract of sale for the Gemstone VII notes and directing DBSI to return the purchase price for the notes, together with interest. M&T hereby tenders its Gemstone VII notes to DBSI.

TENTH CAUSE OF ACTION
(Rescission of Contract/Illegality)

131. Repeats the allegations in paragraphs 1 through 130.

132. The contract of sale pursuant to which DBSI sold the Gemstone VII notes to M&T was unlawful because it included misrepresentations and material omissions in violation of New York and federal law, including the New York Martin Act (N.Y. Gen. Bus. Law § 352-c), General Business Law § 349, General Business Law § 350, and section 17 of the Securities Act of 1933, 15 U.S.C. § 77q, and the regulations promulgated thereunder.

133. Because the contract of sale was illegal, M&T is entitled to judgment rescinding the contract of sale for the Gemstone VII notes and directing return of the purchase price for the notes, together with interest. M&T hereby tenders its Gemstone VII notes to DBSI.

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ELEVENTH CAUSE OF ACTION
(Mutual Mistake)

134. Repeats the allegations in paragraphs 1 through 133.

135. M&T pleads this tenth cause of action in the alternative to its contention that DBSI intentionally defrauded it.

136. M&T entered into the contract to purchase the Gemstone VII notes based on the following mistakes of fact:

a. That the collateral underlying the Gemstone VII notes was diversified and not correlated.

b. That the Gemstone VII notes had actually and objectively satisfied the standards to be rated AAA by S&P and Aaa by Moody's.

c. That the same underwriting and due diligence standards had been applied to Gemstone VII as to the earlier Gemstone CDOs.

d. That the overcollateralization and tranched structure of the Gemstone VII CDO would protect M&T's notes from losses or declines in value.

e. That the safety and stability of the Gemstone VII was not dependent upon continuing appreciation of home prices in the United States market.

f. That the safety and stability of the Gemstone VII notes was

commensurate with other debt instruments paying interest at the rate of approximately 3.37% to 3.58%.

g. That the loss and default models applied by the rating companies and by defendants to the Gemstone VII notes were reasonable, accurate, and reliable for predicting the performance of the Gemstone VII notes.

137. If DBSI was also unaware of and mistaken about any of the foregoing facts, then the contract of sale for the Gemstone notes was based upon a mutual mistake of material fact.

138. In that event, M&T is entitled to rescission of that contract and return of its purchase price for the notes, together with interest. M&T hereby tenders the Gemstone VII notes to DBSI.

TWELFTH CAUSE OF ACTION
(Unjust Enrichment)

139. Repeats the allegations in paragraphs 1 through 138.

140. As a result of their fraud and other wrongful conduct, defendants have been unjustly enriched. It would be inequitable and unjust to permit defendants to retain the proceeds of their unlawful conduct.

141. M&T is entitled to judgment directing defendants to disgorge all amounts received as a result of their fraudulent and wrongful conduct in connection with notes sold by Gemstone VII, including without limitation: the proceeds of the sales of the notes, all collateral

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management fees, trustee fees, collateral administration fees, amounts received by Deutsche Bank AG as counterparty on credit default swaps, distributions of any type from Gemstone VII, commissions or sales fees, and amounts received from the Gemstone VII CDO in transactions involving the purchase of collateral.

WHEREFORE, M&T demands judgment as follows:

(1) On the first through eighth causes of action, monetary damages in an amount sufficient to compensate M&T for its losses, which amount exceed $82 million.

(2) On the first, third, ninth, tenth, and eleventh causes of action, judgment determining that the contract of sale between DBSI and M&T is rescinded, and directing DBSI to return to M&T the purchase price for the Gemstone VII notes.

(3) On the fourth cause of action, judgment directing an accounting of all amounts received by HBK and DBSI from M&T or in connection with the Gemstone VII notes, together with judgment imposing a constructive trust on all such amounts for the benefit of M&T.

(4) On the twelfth cause of action, judgment directing defendants to disgorge all amounts received as a result of their wrongful conduct in connection with the Gemstone VII CDO.

(5) On all causes of actions, an award of interest, costs and disbursements, and attorneys' fees.

(6) An award of punitive damages in an amount exceeding $100 million.

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(7) Such further relief as the Court deems proper.

Date: June 16, 2008

HODGSON RUSS LLP

By_____
Robert J. Lane, Jr.
Jodyann Galvin
Jennifer Mucha
The Guaranty Building
140 Pearl Street, Suite 100
Buffalo, New York 14202
Telephone: (716) 856-4000

and

KORNSTEIN VEISZ WEXLER & POLLARD, LLP
Daniel J. Kornstein
Kevin J. Fee
757 Third Avenue
New York, NY 10017
Telephone: (212) 418-8610

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	A	B	C	D	E	F	G	H
1								
2								
3				Gemstone VII				
4				Summary				
5								
6								
7		DB Contact	Institution	Contact Email	Contact Name	Class	Rating	Allocation
8								
9								($ mm)
10		Class A-1a						
11		K. Dewell	Standard Chartered	Victor.Lobit@sk.standardchartered.com	Victor Lobit	Class A-1a	Aaa/AAA	244
12								244
13		Class A-1b						
14			DB			Class A-1	Aaa/AAA	200
15			HBK	rwish@hbk.com	Rachel Wish	Class A-1	Aaa/AAA	200
16								400.0
17		Class A-2						
18		D. Lotlow	NIB	alotlow@nibcom.com	ARJUN KAKAR	Class A-2	Aaa/AAA	30
19		M. George	IKB	uta.kubin@ikb-com.de	Uta Kubin	Class A-2	Aaa/AAA	87
20		S. Whelan	M&T Bank	deborchard@mandtbank.com	Dave Borchad	Class A-2	Aaa/AAA	42
21								159.0
22								
23		Class B						
24		S. Whelan	M&T	deborchard@mandtbank.com	Dave Borchad	Class B	Aa2/AA	40
25		D. Lotlow	NIB	alotlow@nibcom.com	ARJUN KAKAR	Class B	Aa2/AA	5
26		F Whelan	Wachovia	james.burke1@wachovia.com	James Burke	Class B	Aa2/AA	20
27			HBK			Class B	Aa2/AA	31.9
28								96.9
29								
30		Class C						
31		D. Lotlow	ACA		Ava Regal	Class C	A2/A	10
32		F Whelan	Wachovia	james.burke1@wachovia.com	James Burke	Class C	A2/A	20
33			HBK	rwish@hbk.com	Rachel Wish	Class C	A2/A	38.3
34								68.3
35								
36		Class D						
37		P. Banks	Commerzbank	mlewis@hbkse.com	Maurice Lewis	Class D	Baa2/BBB	15
38		J. Dunning	TCW	shirley.zheng@tcw.com	Shirley Zheng	Class D	Baa2/BBB	4
39			HBK			Class D	Baa2/BBB	36.1
40								55.1
41								
42		Class E						
43			HBK			Class D	Ba3/BB	18.7
44								18.7
45		Equity						
46			HBK	rwish@hbk.com	Rachel Wish			59.5
47								59.5
48								
49		Total						857.5
50								

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1487

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From: Stuber, Laura (HSGAC)
Sent: Tuesday, November 23, 2010 5:25 PM
To: 'barbara.wright@wellsfargo.com'
Subject: RE: Gemstone VII Information

Yes, thanks very much.

-----Original Message-----
From: barbara.wright@wellsfargo.com [mailto:barbara.wright@wellsfargo.com]
Sent: Tuesday, November 23, 2010 4:53 PM
To: Stuber, Laura (HSGAC)
Subject: RE: Gemstone VII Information

At this point the Gemstone bonds are not anticipated to pay anything, which is why they are currently marked at $0 (i.e., their current market value) in the Longshore III trustee reports. However, the bonds did pay some interest over the years, as set forth on the attached chart. As you can see, the Class B's did pay some interest into Longshore III until recently, on a declining basis. Longshore III has ~~not liquidated~~, which is why there are still trustee reports; Sagittarius has liquidated and the bonds were worthless at the liquidation, since the Class C's had stopped cash-flowing in 2007. Does this help?

-----Original Message-----
From: Stuber, Laura (HSGAC) [mailto:Laura_Stuber@hsgac.senate.gov]
Sent: Tuesday, November 23, 2010 2:38 PM
To: Wright, Barbara H
Subject: RE: Gemstone VII Information

Barbara,
Hi. I want to make sure I understand what you sent me. Did Longshore receive any return on its $30 million purchase of Gemstone 7? I know you said that the bonds are currently marked at zero, but I wasn't sure if that meant that the mark had changed post liquidation. Please let me know if I'm not understanding this correctly. Thank you.

-----Original Message-----
From: barbara.wright@wellsfargo.com [mailto:barbara.wright@wellsfargo.com]
Sent: Friday, November 19, 2010 3:01 PM
To: Stuber, Laura (HSGAC)
Subject: RE: Gemstone VII Information

Hi Laura. First, I am attaching the most recent trustee's report for the Longshore III transaction which shows the Gemstone 7 bonds marked at $0. (Note that these are not Wachovia's assets (or losses), but are collateral held in a CDO.) I was also able to locate the "missing" $10 million -- SAI purchased $10 million of the Class C's for another CDO it was managing called Sagittarius. Sagittarius went into default and was liquidated and no value was received for the Gemstone 7 bonds at the time of liquidation. I hope this is helpful.

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1488

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Redacted By The Permanent Subcommittee on Investigations

$20MM GEMST 2007-7A B held by Longshore III

Period	Date	Principal	Interest
0	3/15/2007	0	0
1	6/12/2007	0	298,320
2	7/12/2007	0	0
3	8/13/2007	0	0
4	9/12/2007	0	308,711
5	10/12/2007	0	0
6	11/13/2007	0	0
7	12/12/2007	0	322,734
8	1/14/2008	0	0
9	2/12/2008	0	0
10	3/12/2008	0	293,854
11	4/14/2008	0	0
12	5/12/2008	0	0
13	6/12/2008	0	183,042
14	7/14/2008	0	0
15	8/12/2008	0	0
16	9/12/2008	0	177,164
17	10/14/2008	0	0
18	11/12/2008	0	0
19	12/12/2008	0	176,881
20	1/12/2009	0	0
21	2/12/2009	0	0
22	3/12/2009	0	138,938
23	4/14/2009	0	0
24	5/12/2009	0	0
25	6/12/2009	0	102,797
26	7/13/2009	0	0
27	8/12/2009	0	0
28	9/14/2009	0	67,403
29	10/13/2009	0	0
30	11/12/2009	0	0
31	12/14/2009	0	49,529
32	1/12/2010	0	0
33	2/12/2010	0	0
34	3/12/2010	0	46,712
35	4/12/2010	0	0
36	5/12/2010	0	0
37	6/14/2010	0	47,821
38	7/12/2010	0	0
39	8/12/2010	0	0
40	9/13/2010	0	170
41	10/12/2010	0	0

$10MM GEMST 2007-7A C held by Longshore III

Period	Date	Principal	Interest
0	3/15/2007	0	0
1	6/12/2007	0	187,974
2	7/12/2007	0	0
3	8/13/2007	0	0
4	9/12/2007	0	194,478
5	10/12/2007	0	0
6	11/13/2007	0	0
7	12/12/2007	0	0
8	1/14/2008	0	0
9	2/12/2008	0	0
10	3/12/2008	0	0
11	4/14/2008	0	0
12	5/12/2008	0	0
13	6/12/2008	0	0
14	7/14/2008	0	0
15	8/12/2008	0	0
16	9/12/2008	0	0
17	10/14/2008	0	0
18	11/12/2008	0	0
19	12/12/2008	0	0
20	1/12/2009	0	0
21	2/12/2009	0	0
22	3/12/2009	0	0
23	4/14/2009	0	0
24	5/12/2009	0	0
25	6/12/2009	0	0
26	7/13/2009	0	0
27	8/12/2009	0	0
28	9/14/2009	0	0
29	10/13/2009	0	0
30	11/12/2009	0	0
31	12/14/2009	0	0
32	1/12/2010	0	0
33	2/12/2010	0	0
34	3/12/2010	0	0
35	4/12/2010	0	0
36	5/12/2010	0	0
37	6/14/2010	0	0
38	7/12/2010	0	0
39	8/12/2010	0	0
40	9/13/2010	0	0
41	10/12/2010	0	0

$10MM GEMST 2007-7A C held by Sagittarius

Period	Date	Principal	Interest
0	3/15/2007	0	0
1	6/12/2007	0	187,974
2	7/12/2007	0	0
3	8/13/2007	0	0
4	9/12/2007	0	194,478
5	10/12/2007	0	0
6	11/13/2007	0	0
7	12/12/2007	0	0
8	1/14/2008	0	0
9	2/12/2008	0	0
10	3/12/2008	0	0
11	4/14/2008	0	0
12	5/12/2008	0	0
13	6/12/2008	0	0
14	7/14/2008	0	0
15	8/12/2008	0	0
16	9/12/2008	0	0
17	10/14/2008	0	0
18	11/12/2008	0	0
19	12/12/2008	0	0
20	1/12/2009	0	0
21	2/12/2009	0	0
22	3/12/2009	0	0
23	4/14/2009	0	0
24	5/12/2009	0	0
25	6/12/2009	0	0
26	7/13/2009	0	0
27	8/12/2009	0	0
28	9/14/2009	0	0
29	10/13/2009	0	0
30	11/12/2009	0	0
31	12/14/2009	0	0
32	1/12/2010	0	0
33	2/12/2010	0	0
34	3/12/2010	0	0
35	4/12/2010	0	0
36	5/12/2010	0	0
37	6/14/2010	0	0
38	7/12/2010	0	0
39	8/12/2010	0	0
40	9/13/2010	0	0
41	10/12/2010	0	0

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From: Farber, Seth [sfarber@deweyleboeuf.com]
Sent: Tuesday, December 07, 2010 8:43 AM
To: Stuber, Laura (HSGAC)
Cc: Farber, Seth; Careiro, Vanessa (HSGAC); Petrella, Christina; Coleman, Ilona
Subject: Re: Another matter

Laura - in response to your question about the ultimate result of Commerzbank's Gemstone VII investment, the investment has been transferred to the Bank's London branch and has been written down to zero. Seth

On Nov 22, 2010, at 10:12 AM, "Stuber, Laura \(HSGAC\)" <Laura_Stuber@hsgac.senate.gov> wrote:

> Thanks Seth. I will give you a call after 2:00.
>
> **From:** Farber, Seth [mailto:sfarber@deweyleboeuf.com]
> **Sent:** Saturday, November 20, 2010 3:59 PM
> **To:** Stuber, Laura (HSGAC)
> **Cc:** Careiro, Vanessa (HSGAC); Petrella, Christina; Coleman, Ilona
> **Subject:** RE: Another matter
>
> Laura - I tried you on Friday at 4 pm, as we discussed, but just got voicemail. If you'd like to follow up on Monday, my schedule is pretty clear after 2pm. Seth

---

Seth Farber

Partner

Dewey & LeBoeuf LLP

1301 Avenue of the Americas

New York, NY 10019

Direct: +1 212 259 7227

General: +1 212 259 8000

Fax: +1 212 259 6333

sfarber@dl.com

www.dl.com

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1490



greglip@bbotg To: jmcpassport@bbotg
cc:
Subject: Re: Fwd: Wall Street Journal Today Wednesday August 23

08/23/2006
11:31 AM

Message Sent: 08/23/2006 12:31:41
From: GREGLIP@BBOTG|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
To: JMCPASSPORT@BBOTG|JEREMY COON|PASSPORT MANAGEMENT,||

yes...as they r buying equity and shorting the single names..a bit deviou=
s..
----- Original Message -----
From: JEREMY COON, PASSPORT MANAGEMENT,
At: 8/23 12:27:13

and this chicago fund is rather bearish on housing yes?.....
----- Original Message -----
From: GREG LIPPMANN, DEUTSCHE BANK SECURI
At: 8/23 12:24:20

chicago based hedge fund that is buying tons of cdo equity and shorting t=
he
single names...will send u a siiarl trade idea (thought we had discussed =
before)
----- Original Message -----
From: JEREMY COON, PASSPORT MANAGEMENT,
At: 8/23 11:34:58

what is magnetar?
----- Original Message -----
From: GREG LIPPMANN, DEUTSCHE BANK SECURI
At: 8/23 11:34:12

i do indeed when magnetar gets full which is soon it will be off to the r=
aces..
----- Original Message -----
From: JEREMY COON, PASSPORT MANAGEMENT,
At: 8/23 11:32:46

sounds good....we are waiting for some new European funds to come in and =
then
plan on doing some more CDS with you.....u think we have a chance at crac=
king
the infernal CDO bid this fall and actually trading on fundamentals and
widening?
----- Original Message -----
From: GREG LIPPMANN, DEUTSCHE BANK SECURI
At: 8/23 11:30:27

lets make a plan closer to the date
----- Original Message -----
From: JEREMY COON, PASSPORT MANAGEMENT,
At: 8/23 11:28:15

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1496

'onfidential Treatment Requested by DBSI

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cool....hope to see ya down there
----- Original Message -----
From: GREG LIPPMANN, DEUTSCHE BANK SECURI
At: 8/23 11:25:22

absolutely...
----- Original Message -----
From: JEREMY COON, PASSPORT MANAGEMENT,
At: 8/23 11:21:53

are you attending the ABS East Nov 5-8?
----- Original Message -----
From: GREG LIPPMANN, DEUTSCHE BANK SECURI
At: 8/23 11:10:41

----- Original Message -----
From: Greg Lippmann <greg.lippmann@db.com>
At: 8/23 11:09:55

August 23, 2006

After the Boom
Housing Slump Proves Painful
For Some Owners and Builders
'Hard Landing' on the Coasts
Jolts Those Who Must Sell;
Ms. Guth Tries an Auction
'We're Preparing for the Worst'

By JAMES R. HAGERTY and MICHAEL CORKERY
August 23, 2006; Page A1
HERNDON, Va. -- For years, real-estate brokers and home builders promised=

that the soaring property market eventually would glide to a soft landing=

.
These optimists predicted that home prices, which had more than doubled i=
n
parts of the country between 2000 and 2005, would continue to rise, but a=
t
a more normal pace of 5% or 6% a year.
It isn't working out that way. The rapid deterioration of the market over=

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the past 12 months has caught many homeowners and builders off guard. Som=
e
are being forced to cut prices far below what their homes could have
fetched a year ago. It's too early to say how hard the landing will be,
but at a minimum it will be bumpy for many people who need to sell homes.=

And the economy as a whole, buoyed in recent years by the housing frenzy,=

could suffer.
The pain that homeowners and home builders are now feeling follows a
raging national house party. As Americans soured on the stock market afte=
r
the tech bubble burst in 2000, they poured money into real estate, spurre=
d
on by the lowest interest rates in four decades and looser lending
standards. Surging demand created home shortages in California, Florida
and the Northeast. Over the five years ending Dec. 31, average U.S. home
=

prices jumped by 58%, according to a federal housing index.
But mortgage rates began rising and surging inventories of homes for sale=

finally caught up with demand. Though economists had been predicting a
slowdown in housing for years, many homeowners and builders were surprise=
d
by how fast the market changed. "It's just like somebody flipped a
switch," says Lynn Gardner, a real-estate auctioneer who works in Norther=
n
Virginia.
"It would be difficult to characterize the position of home builders as
other than in a hard landing," says Robert Toll, chief executive of luxur=
y
home builder Toll Brothers Inc., which reported yesterday that net income=

fell 19% in the third quarter ended July 31. (See related article2.)
In his 40 years as a home builder, Mr. Toll says, he has never seen a
slump unfold like the current one. "I've never seen a downturn in housing=

without a downturn in employment or... some macroeconomic nasty condition=

that took housing down along with other elements of the economy," he says=

"This time, you've got low unemployment, you've got job creation, you've
=

got a stable stock market and relatively low interest rates."
Joan Guth is one homeowner who was taken by surprise. Last September, she=

put her stately five-bedroom home in Herndon, Va., on the market for abou=
t
$1.1 million. She was confident she would get something near that price,
=

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and planned to use the proceeds to buy a retirement home in Florida. But
=

her home in the Washington suburbs attracted few serious lookers, and in
=

March, she cut her asking price to $899,900. Still there were no takers.
=

Finally, on the advice of her broker, she called in an auction firm,
beginning a process that would eventually reveal to her just how weak the=

Northern Virginia market had become.
In much of the country, property markets began cooling rapidly in the
second half of last year. Home builders were still turning out houses at =
a
rapid clip, and the surge of new and previously occupied homes on the
market convinced buyers there was no need to hurry. Over the past year,
the number of previously occupied homes listed for sale nationwide has
risen nearly 40%. In some metropolitan areas, including Orlando and
Phoenix, the supply has quadrupled.
Investors who during the boom had been snapping up properties from the
outskirts of Phoenix to the slums of Baltimore began dumping them on the
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market, hoping to get out with a profit before it was too late.
The resulting slump, thus far, is being felt mainly on the East and West
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coasts and in Florida, where home prices had soared beyond the average
working family's ability to pay. In California's San Diego County, the
median home-sale price was $487,000 in July, down 1.8% from a year
earlier, according to DataQuick Information Systems, a research firm in
San Diego. Prices in the Northern Virginia counties of Fairfax and
Arlington and in nearby towns, near Washington, averaged $537,731 in July=
,
down 3.9% from a year earlier, according to the Northern Virginia
Association of Realtors.

Joan Guth, outside the Herndon, Va., home she agreed to sell earlier this=

month.

In some other parts of the country, notably Texas and the Seattle area,
local housing markets remain robust. Texas' low housing costs are
attracting new residents and investors, while Seattle's strong job market=

and shortage of homes have kept prices rising.
Nationwide, the median sale price of previously occupied homes in June wa=
s
0.9% higher than it was a year earlier, the smallest year-to-year increas=

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since May 1995, according to the National Association of Realtors, a trad=
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group. Over the next few months, the median price may decline from
year-earlier periods, a spokesman for the association says, something tha=
t
hasn't happened since February 1993.
The market may be weaker than the Realtors' widely followed monthly
reports suggest. The group's data don't reflect the latest transactions.
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Its report on July home sales, for instance, due today, will mainly
reflect sales that were agreed upon in May or June and closed in July.
Moreover, when the market turns down, many home sellers initially let
their homes sit instead of cutting prices enough to entice buyers.
Allen Sinai, chief economist at Decision Economics Inc., a New York
research firm, contends that housing is poised for something "harder than=

a soft landing but softer than a hard landing." The weaker market will
hurt the economy by eliminating jobs in construction and other
housing-related fields and by reducing the ability of consumers to financ=
e
spending by borrowing against their home equity. Mr. Sinai predicts these=

factors could shave as much as a percentage point off economic growth ove=
r
the next year or so. Taking that into account, he expects the economy to
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grow at a relatively sluggish annual rate of 2.5% to 2.75% in 2007,
compared with 2.5% in this year's second quarter and 5.6% in the first
quarter.
In a speech yesterday, Michael Moskow, president of the Federal Reserve
Bank of Chicago, noted: "While we factor a housing slowdown into our
outlook, there is some evidence -- such as higher rates of cancellation i=
n
home-building contracts -- that the slowdown could be more extensive."
With fewer consumers applying for home loans, some big mortgage lenders
are already retrenching. Countrywide Financial Corp. last month announced=

plans to reduce costs by $500 million. Earlier this year, Washington
Mutual Inc. eliminated 2,500 jobs at loan-processing centers.
Builders, who were optimistic about prospects until a few months ago, are=

cutting back too. KB Home, a big home builder based in Los Angeles, has
eliminated 7% of its work force, or 440 jobs. In July, U.S. home builders=

started construction at an annual rate of 1.45 million single-family
homes, down 20% from the January peak.
Last August, when Horsham, Pa.-based Toll Brothers reported that its
quarterly profit had doubled, Mr. Toll boasted: "We've got the supply, an=
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the market has got the demand. So it's a match made in heaven." Since
then, Toll has cuts its guidance four times on the number of homes it

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expects to close on, and its share price has fallen by more than 45%.
Yesterday, the company said orders for new homes in the third quarter wer=
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down 48% from a year earlier.
Mr. Toll blames a "drop in confidence" among prospective home buyers, who=

he says are worried about "the direction of America" and the situation in=

Iraq. The retreat of speculators who were buying and "flipping" homes als=
o
hurt the market, he says. Such speculative buyers, who Mr. Toll estimates=

accounted for about 10% of demand one year ago, are now sellers.
Even so, Mr. Toll contends that new household formation, immigration, job=

creation and rising affluence are currently producing a pent-up demand fo=
r
housing. Once Americans believe that home prices have bottomed, he argues=
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they will rush back into the market, although he is unwilling to predict
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when that will happen.
At D.R. Horton Inc., the nation's largest home builder by units built per=

year, executives said late last year they were confident that quarterly
earnings would continue to increase even during a housing-market slump. I=
n
July, Horton reported a 21% decline in net income for the third quarter
ended June 30, the first quarter in 28 years in which it didn't report
year-over-year profit growth. Horton's chief executive, Donald Tomnitz,
said the surge in home prices had priced many people out of the market.
"Every time we've gone into a downturn in the home-building industry,
they've always been longer and deeper than we've all imagined," Mr.
Tomnitz told analysts in a July 20 conference call. "So we're preparing
for the worst, and we think this one will be longer and deeper than just
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the last six months."
For some homeowners who bought as the market was peaking last year, the
downturn is already creating a financial pinch.
In April 2005, Jennifer Bloom paid about $229,000 for a condominium in
Yarmouth Port on Massachusetts's Cape Cod, where her son planned to live.=

After his plans changed, Ms. Bloom, a software specialist for a computer
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company, decided early this year to sell the condo. She initially listed
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it at $229,000, and then gradually shaved the price to $199,000 as the
market weakened. Earlier this month, she gave up on finding a buyer at a
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price she could bear to accept. Instead, she is renting out the condo for=

$1,000 a month, which she says is more than $200 below her monthly costs
=

for mortgage payments, insurance, taxes and other items. She says she
intends to hold off on selling it until the market improves.
The slump has been particularly harsh in Northern Virginia, where in
recent years, large home builders have turned open fields and wooded lots=

into new subdivisions. Inventories of unsold homes here have risen 147%
over the past year, compared to a 40% increase nationally.
Would-be sellers such as Tahir Javed, a 36-year-old management consultant=
,
are growing frustrated. One year ago, Mr. Javed decided to move up from
his town house in Ashburn, Va. He signed a contract to buy for $983,000 a=

four-bedroom brick colonial that a developer planned to build in nearby
Leesburg. He put down a $60,000 deposit and planned to move into the new
=

house in October 2006.
In May, Mr. Javed put his town house on the market for $499,900, which he=

says is far above the $212,000 he paid in 1999, but in line with asking
prices for similar homes in the neighborhood. He hasn't been able to find=

a buyer, and the balance he owes on his new house -- about $920,000 -- is=

due in about six weeks.
Mr. Javed says he asked the builder for a price break, but the answer was=

no. He's considering cutting the asking price for his town house to
slightly under $470,000, and if that doesn't work, he may try to find a
renter. He had planned to use the money from selling the town house as a
=

20% down payment on what he owes on his new home, and to borrow the other=

80%. Now he may need a bigger loan, which could carry a higher interest
rate, he says. "That is the painful part," he says.
Ms. Guth, whose home in Herndon, Va., had failed to attract a buyer after=

months on the market, eventually turned to Tranzon Fox, an auction firm
based in Burke, Va. Ms. Guth had based her initial $1.1 million asking
price on a 2005 appraisal of her home, which now appeared far off the
mark. She and her family decided they would accept the highest bid of at
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least $675,000.
Kristin Eddy, a 35-year-old pediatric occupational therapist living in a
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town home in Reston, Va., had noticed Ms. Guth's dark-green turreted home=

with its wraparound verandas while riding her bike along a nearby trail.
=

"I've had my eye on that house for a long time -- as a dream," Ms. Eddy
says. When it first went on the market, it was far beyond her price range=
.
Then she noticed the sign announcing the auction.
On the morning of Aug. 5, the auctioneer, Stephen Karbelk, set up
loudspeakers on Ms. Guth's side lawn. Ms. Guth handed bottles of chilled
=

water to the several dozen bidders and curious neighbors who showed up. "=
I
have a whole stomach full of butterflies," Ms. Guth said.
Ms. Eddy figured her chances of winning were near zero. When the auction
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began, it became clear that there were only two serious bidders. Although=

Mr. Karbelk tried to stir excitement, the bidding petered out within
minutes. Ms. Eddy was the high bidder, at $475,000.
Looking stricken, Ms. Guth and one of her sons huddled with their broker
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for a few minutes. Then they told the auctioneer they wouldn't accept the=

bid, which fell below the stipulated minimum that hadn't been revealed to=

bidders. The auction was over.
Ms. Guth said she would move and leave the house empty until she could
sell it at a reasonable price. Late that afternoon, Ms. Eddy raised her
offer to $525,000. The Guths wavered for two days before agreeing to
accept about $530,000. Ms. Eddy is getting a home with five bedrooms, fou=
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full bathrooms, a half-acre lot and a three-car garage for about what som=
e
people had been paying until recently for town houses in the area.
Ms. Guth has revised her retirement plan. The disappointing auction resul=
t
made it difficult for her to afford the kind of home she wanted in
Florida. She has decided to buy a home in South Hill, a rural area of
south-central Virginia where home prices are cheaper than they are in
either Florida or the Washington suburbs. She thinks she can find a home
=

there for $175,000 or less.
Write to James R. Hagerty at bob.hagerty@wsj.com3 and Michael Corkery at
=

michael.corkery@wsj.com4

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Please see www.db.com for full research report.

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greglip@bbotg 08/31/2006 01:27 PM

To: wdowd@bbotg
cc:
Subject:

Message Sent: 08/31/2006 13:27:41
From: GREGLIP@BBOTG|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
To: WDOWD@BBOTG|WARREN DOWD|DEUTSCHE BANK SECURI|1726|14580

can u do a call with chris james at partner funds at 12:30 est
today?
Reply:
YES
Reply:
quick question- he asked me a follow up on email. wants to
know how magnetar distorted the market...
Reply:
EASY BUT LENGTHY ANSWWER GET HIM ON THE PHONE AND CALL ME..



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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1496

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660501.536

Michael Raynes@DBEMEA To: Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas
cc:
Subject: Pricing of 2 important ABS CDOs

10/10/2005 11:53 AM

FYI - We priced 2 important ABS CDOs on Friday with pnl of $14mm total and more importantly, firmly established 2 new business lines for the CDO Group:

- The $1billion START 2005-B trade was backed by a static pool of CDS on mezzanine RMBS for Paulson Advisors ($4 bln risk arb hedge fund). Paulson retained the bottom 6% of the trade and we sold the rest of the capital structure. Paulson, who came to us with the strong desire to short the US housing market, wrote CDS on underlying ABS (over 100 names) to DB and DB intermediated them into the deal. Deal team was headed by Michael Lamont who was supported by Rick Kim and Ilinca Bogza on structuring and marketing, respectively .Greg Lippmann also played a critical role in deal execution. Stephanie Ruhle from sales was critical in originating the opportunity.

- We also priced an innovative cash flow ABS CDO for State Street last week (called Diogenes)- this is the first true relative value strategy in the CDO market, long $400mm mezzanine RMBS and short $300mm CDS on RMBS related corporates (homebuilders, banks w high mortgage focuses, monolines, etc). Strategy exploits the very large differential between secured and unsecured in this space (L+190 long BBB pool and 40 bps protection cost on BBB+ shorts). We are out with a similar strategy now for TCW, long ABS short corporate with the shorts more index focused. In addition we are about to execute an engagement letter with TCW for a separate CDO with a strategy long BB RMBS and short BBB RMBS on the same deals. As with the START trade, Lamont played a critical role spearheading the deal from origination to pricing.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1508

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GREGLIP@bloomberg.net To SABHTAR.LNDB@bloomberg.net
cc
12/14/2006 06:26 AM bcc
Subject Re: Four lists for tomorrow 12/14 - Summary

=====Begin Message=====
Message#: 61358
Message Sent: 12/14/2006 06:26:32
From: GREGLIP@bloomberg.net|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
To: SABHTAR.LNDB@bloomberg.net|TARANJIT SABHARWAL|DEUTSCHE BANK SECURI|1726|328663
Subject: Re: Four lists for tomorrow 12/14 - Summary

Agreed. Start is crap you should short because I bet we'll have to. Buyback cash ones next year.

Sent From Bloomberg Mobile MSG

---- Original Message ----
From: TARANJIT SABHARWAL, DEUTSCHE BANK SECURI <sabhtar.lndb@bloomberg.net>
At: 12/13/2006 23:04

yes Greg will be completely passing on the cash TABS equity and the high-grade OWIC..... there are some START single-A on the protection BWIC as well, so will try and get out of our cash longs if we get a decent level - dont particularly like those despite the spreads.

----- Original Message -----
From: GREG LIPPMANN, DEUTSCHE BANK SECURI
At: 12/13 22:59:55

Let's pass on tabs anf get some more cds done.

Sent From Bloomberg Mobile MSG

---- Original Message ----
From: TARANJIT SABHARWAL, DEUTSCHE BANK SECURI <sabhtar.lndb@bloomberg.net>
At: 12/13/2006 21:48

We have one cash BWIC, two BWICs for protection and one OWIC for protection tomorrow, 12/14/06.

List 1 - Cash BWIC - Due 11:00 AM EST
Bid for Equity tranche of Mezz ABS CDO due on Thursday, December 14th at 11am EST. Reserve levels apply.

Security Name	CUSIP	MM	Manager	Vintage
TABS 2005-2A SUB	87337LAF1	8	Tricadia	6/05

List 2 - CDS BWIC - Due 11:00 AM EST
Bids on protection on A and BBB tranches of Mezz ABS CDO due on Thursday, December 14th at 11am EST. $15MM per name. Prefer Variable Cap/No Implied Writedown. Will consider Fixed Cap/Implied Writedown. Reserve levels apply.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1509

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Security Name	CUSIP	M/S/F	Cpn	Manager	Vintage
GEMST 05-2A C	36867VAE7	A2/A/-	+115	HBK	5/05
GEMST 05-3A C	36868AAJ1	A2/A/-	+150	HBK	7/05
START 05-AA C	85768PAC1	A2/A/-	+150	static	6/05
START 05-BA C	85768QAE5	Aa3/AA-/-	+120	static	10/05
ACCDO 4A C1	00388FAC2	Baa2/BBB/-	+285	RWT	4/04
ACCDO 7A C	00388YAC1	A2/A/-	+118	RWT	3/05
DUKEF 04-7A 4A	264403AD8	Baa2/BBB/-	+320	Duke	8/04
GEMST 05-2A D	36867VAF4	A3/A-/-	+158	HBK	5/05
GEMST 05-3A D	36868AAL6	Baa2/BBB/-	+265	HBK	7/05
START 05-AA D	85768PAD9	Baa2/BBB/-	+300	static	6/05
START 05-BA D	85768QAF2	A3/A-/-	+240	static	10/05
START 05-CA E	85768TAH2	Baa2/BBB/-	+450	static	1/06
BWIC 06-1A D	11161RAG7	Baa2/BBB/-	+325	Peloton	5/06
ACABS 04-1A C1	000809AD5	Baa2/BBB/BBB+	+325	ACA	5/04

List 3 - CDS BWIC - Due 11:30 AM EST
Bids for protection on A tranche of ABS CDO due on Thursday, December 14th at 11:30am EST. Size is $10MM. Variable Cap/No Implied Writedown or Fixed Cap/Implied Writedown. Reserve levels apply.

Security Name	CUSIP	M/S/F	Cpn	Manager	Vintage	Type
ACABS 2005-2A A3	00082NAE0	A3/A-/-	+145	ACA	8/05	Mezz
ACABS 2006-1A A3L	00082WAD2	A2/A/-	+155	ACA	4/06	Mezz
ACABS 2006-2A A3L	00389PAD7	A2/A/NR	+150	ACA	11/06	Mezz
CAIRH 2006-2A C	12777AAD5	A2/A/-	+120	Cairn	9/06	HG
CAIRH I-A C	127763AD2	Aa3/A/-	+150	Cairn	8/05	HG
CRNMZ 2006-1A 5	12776YAD4	A2/A/-	+120	Cairn	9/06	Mezz
CRNMZ 2006-2A C	12777CAE9	A2/A/-	+135	Cairn	11/06	Mezz
DHCDO 2005-1A C	26702TAD4	A2/A/-	+175	TCW	12/05	Mezz
GRAND 2005-1A C	38521PAE4	A2/A/-	+155	TCW	12/05	HG
GRAND 2006-2A C	38521TAL0	A3/A-/-	+140	TCW	10/06	HG
IXCBO 2005-1A A3L	46602PAD1	A2/A/-	+175	IXIS	12/05	Mezz
MRCY 2005-2A C	589368AG4	A2/A/-	+150	Fund America	12/05	HG
MRCY 2006-3A C	589372AD3	A2/A/-	+140	Fund America	5/06	HG
NEPTN 2004-1A A3L	640699AD6	A2/A/-	+180	Fund America	1/05	Mezz
NEPTN 2005-2A C	64069RAD6	A2/A/A	+147	Fund America	7/05	Mezz
NEPTN 2006-3A B	64069PAJ7	A2/A/-	+180	Fund America	3/06	Mezz
PAMP 2006-1A C	697728AD5	A2/A/-	+140	Vertical	10/06	HG
SCF 7A C	83743YAE3	A2/A/A	+140	TCW	5/05	Mezz
SCF 8A C	83743LAJ0	A2/A/-	+150	TCW	1/06	Mezz
TOPG 2005-1A B	89053XAE6	A3/A-/-	+170	MWAM	1/06	Mezz
TOPG 2006-2A B	89054BAE3	A2/A/-	+145	MWAM	12/06	Mezz
TOURM 2006-2A D	89155WAE5	A2/A/-	+155	Blackrock	3/06	Mezz
VERT 2005-1A C	92534EAD3	A2/A/-	+145	Vertical	6/05	Mezz
VERT 2006-1A A3	925345AE0	A2/A/A	+165	Vertical	4/06	Mezz
VERT 2006-2A A3	925338AD7	A2/A/A	+145	Vertical	6/06	Mezz

List 4 - CDS OWIC - Due 1:00 PM EST
Offers for protection on AA tranche of Hi Grade ABS CDO due Thursday, December 14th at 1pm EST. Size is $15MM each. Fixed Cap/Implied Writedown. Reserve levels apply.

Security Name	CUSIP	M/S/F	Cpn	Manager	Vintage
ALTS 2006-3A B	02149YAD5	Aa2/AA/-	+52	Aladdin	9/06
BKLYN 2006-1A A2	114238AC2	Aa2/AA/-	+50	Deutsche AM	11/06
BROD 2006-2A B	112018AE6	Aa2/AA/-	+50	Seneca	9/06
CAIRH 2006-2A B	12777AAC7	Aa2/AA/-	+48	Cairn	9/06
CTIUS 2006-2A B	17310JAB3	Aa2/AA/-	+50	Aladdin	12/06

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G2FIN 2006-2A B	36243GAD7	Aa1/AA/-	+49	Wharton AM	11/06
IPSW 2006-1A B	46265BAG3	Aa2/AA/AA	+53	MFS	6/06
ISTAN 2006-1A B	46521UAE6	Aa2/AA/-	+51	ST AM	11/06
JPTR 2006-4A B	48206BAD8	Aa2/AA/-	+55	Maxim	6/06
KENT 2006-3A B	49056BAJ4	Aa2/AA/-	+51	Declaration	10/06
KLROS 2006-4A B	49858BAG0	Aa2/AA/-	+52	Strategos	12/06
MCKIN 2006-3A B1	58162QAC8	Aa2/AA/-	+52	Vertical	11/06
NASS 2006-1A B	63155PAD7	Aa2/AA/-	+52	Princeton Ad	12/06
RDGW 2006-1A A4	766167AE0	Aa2/AA/-	+47	CS Alt Cap	7/06
ROCKV 2006-1A B	77413PAE3	Aa2/AA/-	+50	Petra	10/06
SIXAV 2006-1A B	830087AG7	Aa2/AA/-	+60	Security Benefit	10/06
TAZ 2006-1A B	878046AE1	Aa2/AA/-	+55	Terwin	6/06
WADS 2006-1A B	930313AD3	Aa2/AA/-	+46	Hartford	9/06

=====End Message=====

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1238

Goldman Sachs Expected Profit from RMBS Securitizations

June 2005 - August 2007

Expected Settlement Date	Deal Size [Approximate]	Securitization	Certification	Expected Profit [Approximate]
June 29, 2005	970,327,831	GSAMP Trust 2006-NC2	Mortage Pass Through Certificates, Series 2006-NC2	3,000,000
December 29, 2005	752,357,110	GSAMP Trust 2005-HE6	Mortage Pass Through Certificates, Series 2005-HE6	1,000,000
February 17, 2006	936,138,197	GSAMP Trust 2006-HE1	Mortage Pass Through Certificates, Series 2006-HE1	1,000,000
February 23, 2006	972,554,859	FFMLT Trust 2006-FF3	Mortage Pass Through Certificates, Series 2006-FF3	2,000,000
March 29, 2006	809,746,321	GSAMP Trust 2006-HE2	Mortage Pass Through Certificates, Series 2006-HE2	2,000,000
March 30, 2006	1,509,335,061	GSAMP Trust 2006-FF4	Mortage Pass Through Certificates, Series 2006-FF4	8,000,000
April 27, 2006	486,629,500	GSAMP Trust 2006-S3	Mortage Pass Through Certificates, Series 2006-S3	2,000,000
April 28, 2006	60,030,000	GSMSC Pass-Through Trust 2006-2R	Pass-Through Certificates, Series 2006-2R	6,000,000
April 28, 2006	949,194,951	GSAMP Trust 2006-FM1	Mortage Pass Through Certificates, Series 2006-FM1	8,000,000
May 16, 2006	359,326,855	FFMLT Trust 2006-FF6	Mortage Pass Through Certificates, Series 2006-FF6	1,000,000
May 26, 2006	1,573,244,000	GSAMP Trust 2006-HE3	Mortage Pass Through Certificates, Series 2006-HE3	5,000,000
May 30, 2006	1,175,955,655	Wells Fargo Home Equity Asset-Backed Securities 2006-1 Trust	Home Equity Asset-Backed Certificates, Series 2006-1	1,000,000
June 9, 2006	651,018,182	GSAMP Trust 2006-S4	Mortage Pass Through Certificates, Series 2006-S4	6,000,000
June 30, 2006	992,270,000	GSAMP Trust 2006 HE-4	Mortage Pass Through Certificates, Series 2006-HE4	3,000,000
July 13, 2006	345,085,606	GSAMP Trust 2006-S5	Mortage Pass Through Certificates, Series 2006-S5	8,000,000
August 25, 2006	1,016,102,000	GSAMP Trust 2006-HE5	Mortage Pass Through Certificates, Series 2006-HE5	2,000,000
September 27, 2006	1,001,909,809	GSAMP Trust 2006-FM2	Mortage Pass Through Certificates, Series 2006-FM2	1,000,000
September 28, 2006	2,082,713,112	GSAMP Trust 2006-FF-13	Mortage Pass Through Certificates, Series 2006 FF-13	2,000,000
October 13, 2006	338,821,000	GSAMP Trust 2006-S6	Mortage Pass Through Certificates, Series 2006-S6	4,000,000
October 30, 2006	874,191,130	GSAMP Trust 2006-HE7	Mortage Pass Through Certificates, Series 2006-HE7	2,000,000
December 20, 2006	[Group I: 67,124,073] + [Group II: 337,355,439] = 404,479,512	GSAMP Trust 2006-S7	Mortage Pass Through Certificates, Series 2006-S7	7,000,000
December 20, 2006	751,921,900	GSAMP Trust 2006-FM3	Mortage Pass Through Certificates, Series 2006-FM3	1,500,000
December 27, 2006	1,028,228,000	GSAMP Trust 2006-HE8	Mortage Pass Through Certificates, Series 2006-HE8	2,000,000
January 25, 2007	720,760,000	GSAMP Trust 2007-FM1	Mortage Pass Through Certificates, Series 2007-FM1	1,000,000
January 31, 2007	292,722,704	GSAMP Trust 2007-H1	Mortage Pass Through Certificates, Series 2007-HE1	400,000
February 20, 2007	1,858,511,000	GSAMP Trust 2007-NC1	Mortage Pass Through Certificates, Series 2007-NC1	2,000,000
February 22, 2007	642,014,000	GSAMP Trust 2007-HE1	Mortage Pass Through Certificates, Series 2007-HE1	1,000,000
February 22, 2007	648,356,000	GSAMP Trust 2007-HE1	Mortage Pass Through Certificates, Series 2007-HE1	700,000
February 22, 2007	1,007,881,000	GSAMP Trust 2007-FM2	Mortage Pass Through Certificates, Series 2007-FM2	1,250,000
February 28, 2007	306,179,642	GSAMP Trust 2007-S1	Mortage Pass Through Certificates, Series 2007-S1	6,000,000
April 12, 2007	953,546,000	GSAMP Trust 2007-HE2	Mortage Pass Through Certificates, Series 2007-HE2	250,000
April 17, 2007	144,439,000	GSR 2007-HEL1	Mortage Pass Through Certificates, Series 2007-1	500,000
April 26, 2007	419,650,346	FFMLT 2007-FFB-S5	Mortage Pass Through Certificates, Series 2007-FFB-S5	3,000,000
August 30, 2007	700,500,000	GSAMP Trust 2007-HSBS	Mortage Pass Through Certificates, Series 2007-HSBC	15,000,000

Total Deal Value: $27,736,140,283
Total Profit Value: $109,600,000
Smallest Profit: $250,000
Largest Profit: $15,000,000
Average Profit: $3,131,428

Source: Goldman Sachs documents
Prepared by U.S. Senate Permanent Subcommittee on Investigations, February 2011

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Net Revenues from ABS Products Backed by U.S. Residential Mortgages*

Business Unit	28-Feb-07	31-Mar-07	2007	2008	Total 2007-2008
ABS Secondary Trading	211,590,808	200,727,927	869,653,630	486,916,368	1,356,569,998
ABS Correlation Trading	60,566,887	77,304,095	308,550,000	95,848,354	404,398,354
CDO Primary Issue	(18,327,179)	(18,312,631)	(791,915,674)	(225,658,251)	(1,017,573,925)
ABS CDO Legacy[1]	-	-	-	(132,517,231)	(132,517,231)
RMBS	116,956,270	181,334,847	(459,859,880)	(2,994,238,224)	(3,454,098,104)
Special Products Group – Asset Finance	614,876	476,984	7,493,385	(409,585,890)	(402,092,505)
Special Products Group – Risk Trading	(18,317)	(9,539,371)	(119,881,710)	6,301,943	(113,579,767)
Winchester Capital	42,770,439	29,938,219	(609,538,301)	(489,032,940)	(1,098,571,241)
Total	432,480,963	480,242,701	(795,498,550)	(3,661,965,871)	(4,457,464,421)

* The information set forth herein does not reflect net revenues for CDO Secondary Trading. These data are not readily available because the trading book files used to derive the requested information combine CDO and CLO Secondary Trading, without providing separate breakouts for these assets.

! "ABS CDO Legacy" is a London-based Deutsche Bank account which purchased positions from CDO Primary Issue in September 2007.

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STRUCTURED FINANCE **Special Report**

2008 U.S. CDO Outlook and 2007 Review:

Issuance Down in 2007 Triggered by Subprime Mortgages Meltdown; Lower Overall Issuance Expected in 2008

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Jeremy Gluck contributed to this report as a research consultant. Suzanna Sava contributed data to this report.

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1. Summary
2. U.S. CDO Issuance Fell for the First Time since 2002
3. While Slightly Down in Volume, SF CDOs and CLOs Continued to Dominate U.S. CDO Issuance in 2007
4. Strong First and Second Quarters Offset Declines in the Third and Fourth Quarters of 2007
5. Unprecedented SF CDO Downgrades in 2007 Shatter Historical Record
6. Overall U.S. Financial Market Conditions Remain Difficult
7. Generally Slower Issuance and More Negative Rating Activity Are Expected Heading into 2008

1. SUMMARY

2008 OUTLOOK

To increase transparency on the macroeconomic and financial framework that underpins its risk assessments, Moody's has published a baseline outlook for the global economy, as well as three potential economic risk scenarios. These economic scenarios are intended to help Moody's analysts formulate the outlooks for their specific markets using a consistent set of assumptions that envisage various stressed economic and financial conditions.

The baseline outlook is inspired by major international organizations' economic outlooks. For 2008-2009, we assume robust yet more moderate global growth. However, it is also expected that there will be increased differentiation across geographies - specifically, a moderate downturn in the U.S. (and to a much lesser extent other mature market economies) and continued fast growth in emerging economies. This baseline outlook is affected by an unusually large degree of uncertainty, mostly related to the impact of credit tightening.

Moody's Investors Se

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1264

March 3, 2008

Moody's industry outlook for the mortgage sector in the U.S. is negative. Further declines in home prices combined with weaker economic fundamentals and credit tightening will continue to increase residential mortgage related delinquencies and losses for most of 2008.[2]

Moody's and other market participants currently project double-digit peak-to-trough home price declines, which are expected to contribute to further deterioration in the performance of subprime and Alt-A mortgage pools. As detailed in its updated loss projections for 2006 subprime loans, Moody's views on 2006 vintage subprime pools have become more bearish in recent months, with various stress scenarios resulting in a range of average projected losses, from 12% up to 24% depending on the scenario.[3] It is expected that during the coming year deteriorating performance will continue to affect the ratings of many subprime RMBS originated in 2006 and early 2007, which will in turn affect a significant portion of the structured finance CDO sector.

A major question mark for 2008 is a recovery in investors' confidence. A recovery is unlikely until the effects of the subprime crisis have been fully measured, especially the effects on financial institutions. The turn in the credit cycle and the projected increase in corporate default rates may also start affecting the performance of corporate issuers and therefore heighten investors' caution in CDOs backed by corporate credits.[4]

In addition to performance considerations, investor demand will also be driven by the market's capacity to respond to an increased desire for information transparency in terms of underlying collateral and structural risks, so that investors can focus on deep fundamental analysis and apply sound judgment. Lessons have also been learned through the crisis with respect to the robustness of certain structures exposed to large market-value or correlation risks.

In terms of new issuance, we expect minimal SF CDO issuance in 2008. Cash-flow CLO issuance will be increasingly active during the year, but a lot will be dependent on the conditions in the primary leveraged loan market and the arbitrage opportunity of structuring CLOs. We expect synthetic corporate CDO issuance to slow down substantially in 2008.

In terms of rating performance, we expect to see significantly negative rating activity on SF CDOs during 2008 given Moody's higher loss projections on subprime mortgages. In addition, continued concerns about the credit markets, rising default rates and an overhang from the supply pipeline are likely to keep the leveraged loan market in a state of volatility at least during the first half of 2008. Currently, we do not expect this volatility pressure to be sufficient to induce significant downgrades of CLO liabilities thanks to prudent modeling assumptions and numerous structural enhancements. The projected increase in the U.S. corporate default rate is also partly captured in the ratings of the corporate loans that back CLOs. Additionally, loan default rates have historically been lower than bond default rates and Moody's projected loan default rate is also lower than the projected corporate default rate.[5]

More generally, given that we believe the deterioration in corporate credit quality is likely to continue, the performance of synthetic arbitrage corporate CDO portfolios is expected to weaken. The reduction of risk linked to CDO maturity shortening should, nevertheless, continue to partially offset this trend. The performance of investment-grade CDO deals with significant exposures to financials and housing-related credits will also be tested.

2007 REVIEW

The Collateralized Debt Obligation (CDO) market in the U.S. was very active in terms of issuance throughout the first half of 2007. That was before the subprime market crisis and general credit turmoil of

2 Beyond the general macroeconomic outlook, Moody's will additionally present its Outlook for the general credit fundamentals of the major structured finance sectors as well as various CDO sub-sectors. The Outlooks are intended to cover a period of 12 to 18 months and will be updated periodically on an as-needed basis. Moody's currently assigns five categories of collateral performance Outlook: Positive, Positive/Stable, Stable, Stable/Negative, and Negative. For example, a Stable/Negative collateral performance outlook indicates that the asset class is not expected to perform as well over the next year as it is performing currently.
3 See "Moody's Updates Loss Projections for 2006 Subprime Loans," Moody's Structured Finance Special Report, January 2008.
4 See "Monthly Default Report - January 2008," Moody's Global Credit Research, February 12, 2008.
5 See Moody's Special Comment, "Syndicated Bank Loans: 2007 Default Review and 2008 Outlook," January 2008.

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the second half. In terms of performance and structural challenges, 2007 proved momentous, probably the most important year thus far in the history of CDOs.[6]

The most significant development in 2007 was certainly the U.S. subprime mortgage fallout. A confluence of factors has led to unprecedented deterioration in the subprime mortgage market. Important factors include the extended period of global excess liquidity that preceded it, the loose underwriting and lending standards during the peak of the subprime market boom in 2006, and the dramatic slowdown in the U.S. housing market.

Those U.S. Structured Finance CDOs (SF CDOs) that were exposed to significantly deteriorated subprime RMBS assets experienced significant downgrade activity by year-end.[7] Uncertainty about the future performance of CDO assets and the complexity of CDO structures exacerbated illiquidity in the CDO market and heightened investors' caution toward structured finance products. As a result, we have seen a severe liquidity squeeze and drop in market value across virtually all structured asset classes, resulting in a significant amount of rating actions toward market-value structures.

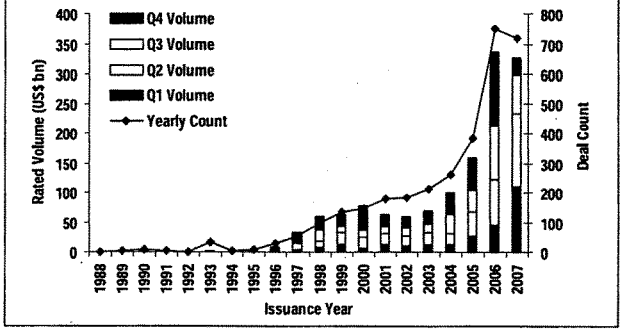
In the U.S. leveraged loan market, activity set new records in the first half of the year as reflected in issuance amounts, leverage multiples, covenant restrictions and pricing levels.[8] The introduction of the LCDX in May 2007 was another significant development in the leveraged loan market. However, the underlying attractive conditions in the market driving these trends evaporated over the summer, and speculative-grade debt issuance, including leveraged loans, dropped precipitously after July. There was concurrently a significant increase in the collateralized loan obligation (CLO) risk premium, and, after several years of vigorous growth, the leveraged loan CLO market experienced a slowdown in issuance.

2. U.S. CDO ISSUANCE FELL FOR THE FIRST TIME SINCE 2002

U.S. CDO issuance, whether measured by number of transactions or the dollar volume of liabilities, fell in 2007 (*Figure 1*). This decline in rated volume was the first since 2002, while the CDO transaction count had not fallen since 1994. But the apparently modest slowing of annual issuance activity belies the sharp change in the market environment that occurred around the middle of 2007. For example, though annual CDO issuance (dollar volume of liabilities) declined by just 3.2%, 2007 H2 volume was fully 56.3% below that of 2006 H2.

Figure 1

U.S. CDO Rated Volume and Deal Count



6 For 2007 review and 2008 outlook of EMEA CDOs, see "2007 Review & 2008 Outlook - EMEA Collateralised Debt Obligations: Strong First Half in 2007 Diluted by Global Credit Crisis; Lower Issuance Expected in 2008 Reflecting Continued Market Disruptions," February 4, 2008.

7 See "U.S. Subprime RMBS 2005-2007 Vintage Rating Actions: January 2008," February 2008, and "Structured Finance CDO Rating Surveillance Report: December 2007," January 2008.

8 See "2007 U.S. Cash-Flow CLO Review and 2008 Outlook," February 2008.

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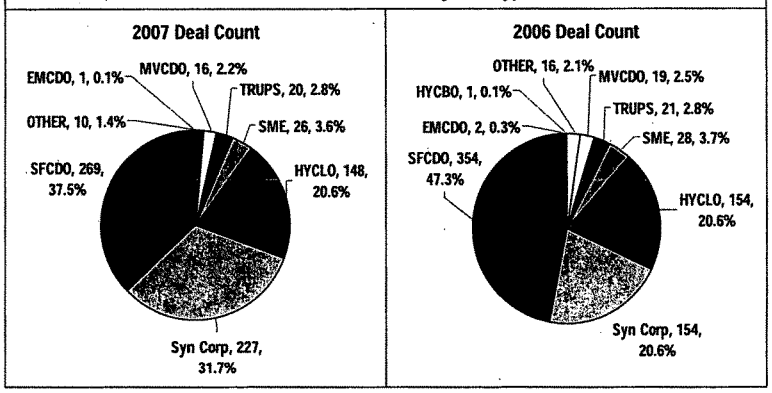
3. WHILE SLIGHTLY DOWN IN VOLUME, SF CDOS AND CLOS CONTINUED TO DOMINATE U.S. CDO ISSUANCE IN 2007

By CDO type, the composition in 2007 was not very different from the previous year (*Figures 2 and 3*). Structured Finance (SF) CDOs, synthetic corporate CDOs and CLOs (including HY CLOs and SME CLOs) again accounted for the vast majority of U.S. transactions in 2007 (about 90% by both transaction count and dollar volume of rated issuance). The most substantial change was that the proportion of SF CDOs within the overall CDO sector dropped both by transaction count and rated volume. Meanwhile, the share of CLOs remained largely unchanged (by deal count) or slightly higher (by dollar volume) compared to 2006, whereas the share of synthetic corporate CDO transactions rose sharply. In addition, the shares of Market-Value and TRUPS CDOs were largely similar (by deal count) between 2007 and 2006.[9]

Specifically, Moody's rated 269 SF CDO transactions totaling approximately US$159.8 billion in 2007, down more than 20% from the 354 SF CDO transactions totaling roughly US$200.6 billion rated in 2006. Moody's also rated 174 CLO transactions (including SME CLOs) totaling US$91.2 billion in 2007, compared to 182 transactions totaling US$87.2 billion rated in 2006. Additionally, *Figure 3* demonstrates that despite a decline in the number of CLOs in 2007, there was an increase in rated CLO volume, thanks to a few very large (multi-billion dollar) CLO deals rated during the year.[10]

Figure 2
Number of U.S. CDO Deals by Deal Type[11]



9 Rated synthetic CDO volumes can be misleading because transaction sponsors may choose to sell single tranches, or the entire capital structure of the transactions. In particular, the selling or retention of supersenior tranches greatly affects volume figures. The synthetic CDO transaction count rose by 32 percent.

10 See Moody's Special Comment, "U.S. CLOs 2007 Review and 2008 Outlook," February 2008.

11 Deal type notation: "EMCDO" stands for emerging-market CDO, "HYCBO" stands for high-yield collateralized bond obligations (CBO), "HYCLO" stands for high-yield collateralized loan obligations (CLO), "MVCDO" stands for market-value CDO, "SME" stands for small-medium enterprise loan CLOs, "SF CDO" stands for structured-finance CDO, "TRUPS" stands for CDO backed by trust preferred securities, "Syn Corp" stands for synthetic corporate CDO. The "OTHER" category includes collateralized fund obligation (CFO), ith-to-default, CDO backed by distressed debt, and catastrophic (CAT) bonds. In addition, Credit Derivative Product Companies (CDPC) are not included in the data sample of this report. Please see "2007 U.S. Credit Derivative Product Companies Review and 2008 Outlook," Moody's Structured Finance Special Report, March 2008.

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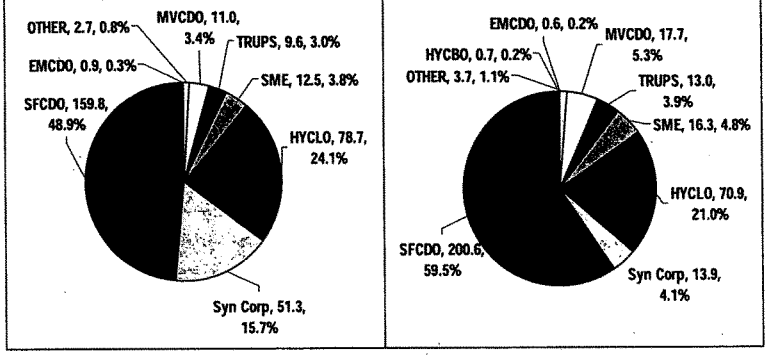
Figure 3
Rated Volume of U.S. CDOs by Deal Type



4. STRONG FIRST AND SECOND QUARTERS OFFSET DECLINES IN THE THIRD AND FOURTH QUARTERS OF 2007

The year 2007 saw a sea change for the CDO market. Moody's rated more than 100 SF CDO transactions in each of the first two quarters, but the number fell sharply to 40 in the third quarter and to just eight in the fourth quarter as the sheer speed and magnitude of the subprime mortgage fallout significantly weakened investors' confidence. In fact, the overall CDO market nearly seized up by the fourth quarter, during which Moody's rated just over 50 deals totaling US$28.9 billion, compared to 250 deals totaling US$124.2 billion in the fourth quarter of 2006. *Figure 4* depicts the drop in rated deals by quarter in 2007.

As a result, SF CDOs accounted for 56.8% of U.S. CDO issuance (by dollar volume) during 2007 H1, but only for 29.5% in 2007 H2. Though CLO volume was also adversely affected by the credit crisis, the strong historical performance of CLOs and lack of a direct connection to the mortgage markets kept issuance from contracting as sharply as that of SF CDOs. A consequence was a substantial increase in the share of CLOs within U.S. CDO issuance-from approximately 21.8% in 07H1 to 43.2% by 07H2 (and 62.9% in the fourth quarter) by dollar volume.

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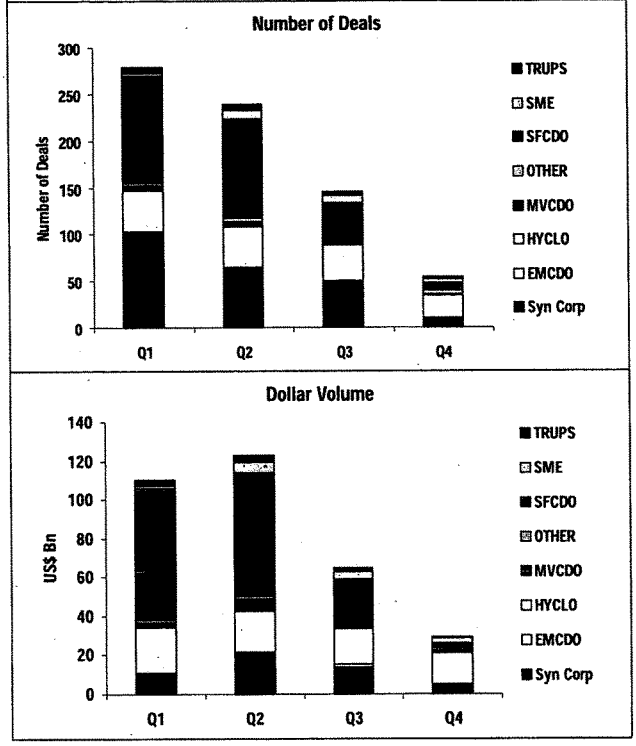
Figure 4
Number and Dollar Volume of U.S. CDO Deals Rated in 2007



5. UNPRECEDENTED SF CDO DOWNGRADES IN 2007 SHATTER HISTORICAL RECORD

As a result of the subprime mortgage crisis and its severe impact on the ratings of RMBS/HEL tranches purchased by SF CDOs (including CDOs of CDOs) and other CDOs, the scope and degree of CDO downgrades in 2007 was unprecedented (*Figure 5*). Moody's took a record 1,655 downgrade actions (including multiple rating actions on the same tranche during the year), roughly ten times the number of downgrade actions in 2006 and twice as many as in 2002, which had been the most volatile year for CDOs before 2007.

The magnitude of the downgrades was also large by historical standards. On average, tranches that were downgraded during 2007 had their ratings lowered by roughly seven notches, compared to a pre-2007 norm of around three or four notches. Interested readers can find more detailed statistics of SF CDO rating actions in the Moody's monthly publication, "Structured Finance CDO Rating Surveillance Brief."[12]

12 See for example, "Structured Finance CDO Rating Surveillance Brief: December 2007," January 17, 2008.

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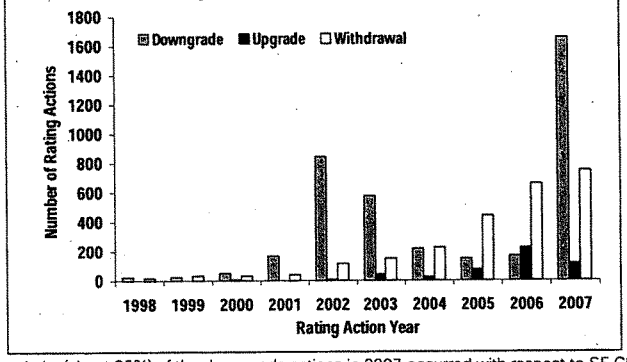
As difficult as the structured credit environment was in 2007, corporate credit performance was only modestly affected by the turmoil in the housing market during the year. The absolute number of CDO upgrade actions declined in 2007 vis-à-vis 2006 as concerns grew on the potential spill-over effect of the subprime mortgage crisis on the broad economy and the corporate sector (*Figure 5*). In addition to the subprime stress that dramatically affected SF CDOs, potential upgrades were limited by a declining number of older, deleveraging high-yield CBOs/CLOs.

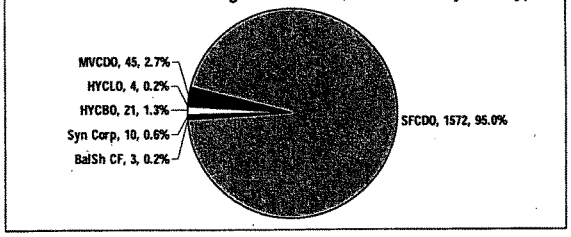
While the absolute number of withdrawals increased in 2007, the figure relative to beginning-of-year outstanding ratings declined in comparison to 2006. As noted below, some withdrawals (of Market-Value CDOs) were associated with negative credit developments. The number of CLO withdrawals also declined, partly because the incentive to refinance older CLOs diminished as credit spreads widened in mid-2007.

Figure 5
Number of U.S. CDO Rating Actions (Downgrades, Upgrades, and Withdrawals)



The vast majority (about 95%) of the downgrade actions in 2007 occurred with respect to SF CDOs (*Figure 6*).[13] Consistent with the development of the subprime mortgage problem, the downgrades were focused on the CDOs that purchased RMBS/HEL collateral from the 2006-2007 vintages (or that purchased other CDOs with such exposures). CDOs backed by earlier vintage subprime RMBS assets were not materially affected.

Figure 6
Distribution of 2007 Downgrade Actions (Total: 1,655) by Deal Type



13 Multiple actions on the same tranche are counted separately. While the figures may be slightly different, our commentaries remain unchanged if the count and percentage are based on distinct tranches, which are used to compute rating action statistics in a monthly Special Report "Structured Finance CDO Ratings Surveillance Brief". In addition, Moody's will soon release its annual credit migration study for CDOs in a separate Special Report.

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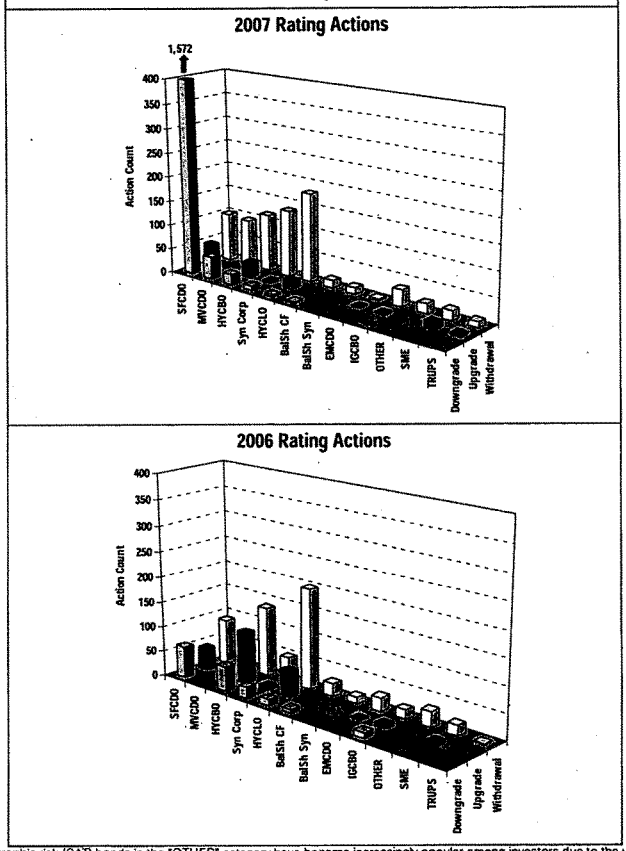
Though small in absolute number, a significant proportion of Market-Value (MV) CDO tranches-roughly 15% of the total outstanding at the beginning of July--were also downgraded. These transactions also came under stress during the credit/liquidity crisis in the second half of 2007. Those MV CDOs that held RMBS collateral were, of course, most sharply affected. The transactions were forced to at least partially liquidate assets in order to maintain required overcollateralization ratios in the highly illiquid environment of 2007 H2. The sales occurred at the same time that other entities, such as Structured Investment Vehicles ("SIV"), were liquidating similar instruments, putting further downward pressure on liquidation proceeds. Eighty-six tranches from five MV CDOs were completely liquidated during the year, contributing to an unusually large number of withdrawn ratings for these transactions (*Figures 7 and 8*).[14]

Figure 7
Number of U.S. CDO Rating Actions by Deal Type



14 Catastrophic risk (CAT) bonds in the "OTHER" category have become increasingly popular among investors due to the uncorrelated nature between natural catastrophic events and credit market cycles. Moody's rated eleven CAT bond transactions in 2006 and seven in 2007, compared to seven rated transactions in 2004 and three transactions in 2005. We expect CAT bond issuance to remain healthy in 2008.

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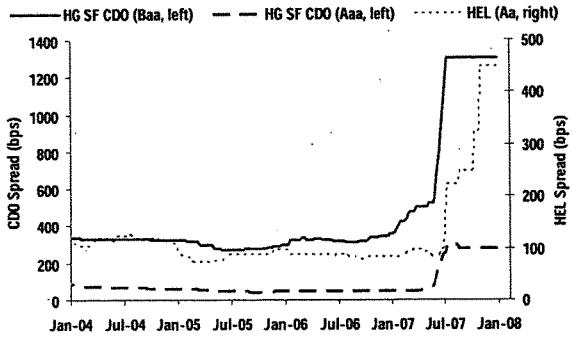
6. OVERALL U.S. FINANCIAL MARKET CONDITIONS REMAIN DIFFICULT HEADING INTO 2008

There is little expectation that CDO performance will quickly turn around in 2008. The difficult market conditions that prevailed during the second half of 2007 remain. While credit spreads have widened in general, the increases have been particularly sharp for CDO liabilities (*Figures 8-10*). The most notable jump has been in the spreads for SF CDO liabilities, which have more than tripled at the Baa level and increased more than five times at the Aaa level during the last year. Of course, spreads on the underlying HEL securities that have backed many of these transactions have also jumped (from 85 bps to 450 bps for Aa HEL securities), but not to the point where expected returns can foster significant market demand for SF CDO liabilities.[15]

Spreads for other CDO liabilities, such as those issued by CLOs and synthetic CDOs were significantly impacted by the spill-over effect of the subprime market crisis and increased sharply as well. On a relative basis, most of these increases were similar to those for SF CDO obligations while the spreads of the underlying corporate assets did not increase as much. For example, Aaa CLO spreads jumped from 24 bps to 95 bps from the beginning to the end of last year, whereas single-B leveraged loan spreads rose from roughly 270 bps to 350 bps during the same period.[16] In some cases, the relative increases in spreads such as those for Aaa-rated synthetic corporate CDO liabilities were even larger (leaped by more than six times) than for SF CDO liabilities.[17]

Figure 8
Spreads of High-Grade SF CDO Liabilities Compared with Spreads of HEL (Subprime RMBS) Securities in 2007



Source: JP Morgan

15 In the absence of a significant number of new SF CDO transactions, these liability spreads are best viewed as indicative, rather than well-defined averages.
16 The average rating of a CLO portfolio is in the single-B range.
17 The spreads on CDO liabilities have continued to rise in the first two months of 2008. As of February 22, 2008, the indicative spread of senior Aaa HG SF CDOs stood above 500 bps, whereas the spread of Aaa U.S. CLOs was about 185 bps.

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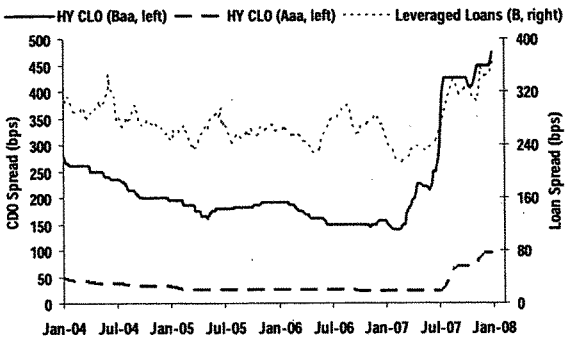
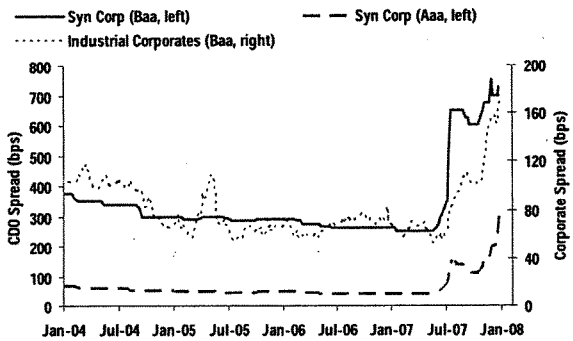
Figure 9
Spreads of U.S. CLO Liabilities Compared with Spreads of U.S. Leveraged Loans in 2007



Source: JP Morgan

Figure 10
Spreads of Synthetic Corporate CDO Liabilities Compared with Spreads of Industrial Corporates in 2007



Source: JP Morgan

The real economy has already slowed and some analysts believe the U.S. has already entered a recession. In particular, both home sales and home prices have deteriorated to an extent not seen in decades (*Figure 11*). Delinquency rates for 2006 and 2007 mortgage loans continue to significantly exceed those of earlier cohorts (*Figure 12*).

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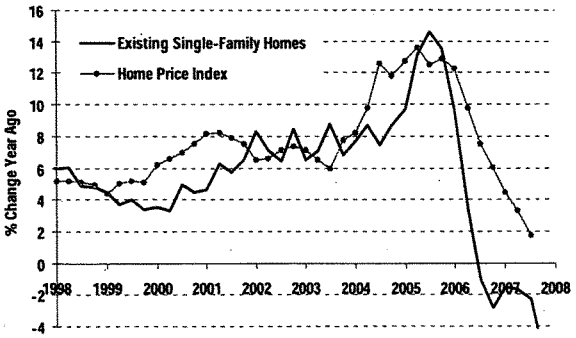
Figure 11

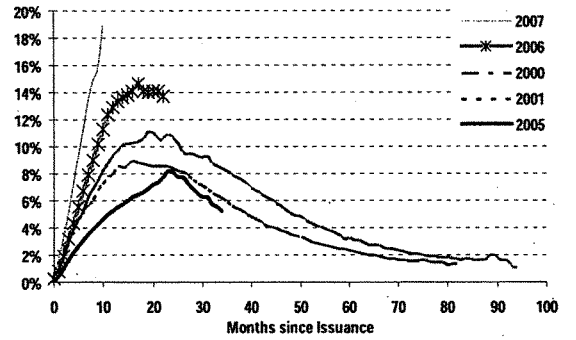
U.S Housing Market Condition Continues to Deteriorate



Sources: NAR (median sales price for existing single family homes), OFHEO (home price index)

Figure 12

2006/2007-Vintage Subprime Mortgage Delinquency Rates Continue Rising



Source: Moody's Investors Service

The slumping housing sector, its spill-over into financial markets and the slowing of the U.S. general economy have begun to have an adverse impact on Moody's corporate ratings. *Figure 13* shows that the 12-month trailing ratings drift (the difference between upgrades and downgrades relative to outstanding ratings) turned negative in the latter part of 2007.

Moody's anticipates a sharp rise in U.S. defaults during 2008 in comparison with recent years (*Figure 14*). Moody's baseline forecast is for an increase in the trailing 12-month speculative-grade default rate from just 0.9% in 2007 to 5.3%, a level slightly above the historical average of 4.7%, by the end of 2008.[18] Moody's pessimistic case contemplates default rates similar to the double-digit peaks that occurred during the 1991-1992 and 2001-2002 periods.

18 Moody's expects that the speculative-grade U.S. loan default rate will increase to approximately 3.0% from its current 0.1% by the end of 2008. See Moody's Special Comment, "Syndicated Bank Loans: 2007 Default Review and 2008 Outlook," January 2008.

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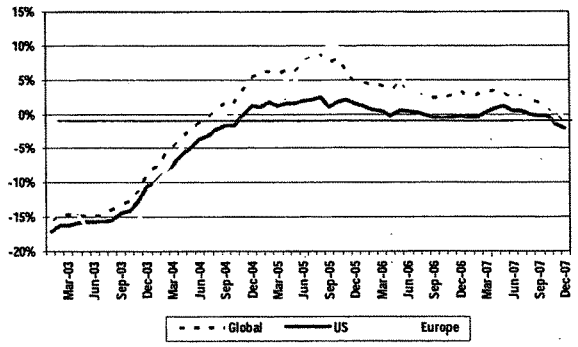
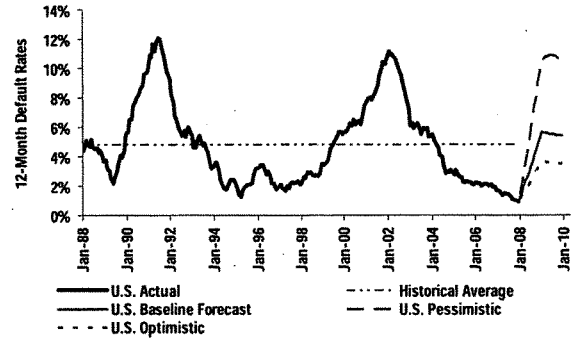
Figure 13
Corporate Credit Quality (Trailing 12-Month Rating Drift) Has Trended Lower



Source: Moody's Investors Service. Rating drift=(issuer upgrades-issuer downgrades)/Rated Issuers

Figure 14
12-Month U.S. Speculative-Grade Default Rate Is Expected to Rise to the Historical Average Level



Source: Moody's Investors Service

7. GENERALLY SLOWER ISSUANCE AND MORE NEGATIVE RATING ACTIVITY ARE EXPECTED IN 2008

ISSUANCE ACTIVITY OUTLOOK

The difficult market and real-sector conditions that are likely to prevail during 2008 will continue to pressure both CDO activity and performance. We anticipate declining activity across all CDO types with the sharpest downturn naturally in the SF CDO sector. The heightened asset price volatility in the current environment will also reduce the demand for market-value structures. Even sectors that have exhibited

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strong historical performance, such as CLOs and TRUPS CDOs, will slow in 2008.[19] We expect the bulk of issuance activity in 2008 to revolve around cash flow CLOs and synthetic corporate CDOs.

If the credit environment improves somewhat in the latter part of the year, there may be pick-up in volume at that time. Also, the deterioration in capital experienced by a number of financial institutions as a result of mortgage-related losses could foster more balance-sheet CDOs. In addition, SME CLO balance-sheet transactions may rebound quicker than arbitrage CLOs as these balance sheet transactions are issued primarily as a source of funding rather than as a result of asset/liability arbitrage.

RATING PERFORMANCE OUTLOOK

CDO performance in general will continue to suffer in 2008, especially within the SF CDO subsector. Moody's has revised upward its subprime RMBS loss projections and has warned that even highly-rated RMBS tranches may be downgraded by several notches.[20] Such downgrades would put significant downward pressure on the ratings of SF CDOs. As a result, our 2008 outlook for the SF CDO collateral performance is negative with significant rating implications on SF CDO securities.

Though the projected increase in the U.S. corporate default rate is partly reflected in the ratings of the corporate instruments that back CLOs and synthetic corporate CDOs, the likelihood of continued negative ratings drift may pressure these CDOs' liability ratings. Still, we do not expect this pressure to be sufficient to induce significant downgrades of CLOs and corporate CDO liabilities. Indeed, existing corporate transactions with the ability to trade could benefit from wider spreads on collateral. Consequently, our 2008 outlook for CLO and synthetic corporate CDO collateral performance is stable/negative with limited rating implications.[21]

The rating outlook for MV CDOs backed by structured instruments continues to be negative in view of ongoing liquidity deterioration in the credit market. Market prices remain weak as a variety of institutions attempt to unload structured instruments, especially RMBS and CDOs with direct or indirect exposure to subprime mortgage assets. In addition, the heightened price volatility of leveraged loans has put pressure on MV CLOs. Therefore, we assign a stable/negative outlook for the MV CDO collateral performance with limited rating implications.

19 For the 2007 Review and 2008 Outlook of TRUPS CDOs, please see "The U.S. Trust Preferred CDO Sector Review and 2008 Outlook," March 2008.
20 See "Moody's updates loss projections for 2006 subprime RMBS," Moody's Announcement, January 31, 2008."
21 A stable/negative collateral performance outlook indicates that the asset class is not expected to perform as well over the next year as it is performing currently.

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RELATED RESEARCH

1. "Structured Finance CDO Ratings Surveillance Brief, January 2008," Moody's Structured Finance Special Report, February 2008.

2. "Structured Finance CDO Ratings Surveillance Brief, December 2007," Moody's Structured Finance Special Report, January 17, 2008.

3. "2007 U.S. CLO Review and 2008 Outlook," Moody's Structured Finance Special Report, February 2008. (Forthcoming)

4. "The U.S. Trust Preferred CDO Sector Review and 2008 Outlook," Moody's Structured Finance Special Report, March 2008. (Forthcoming)

5. "2007 U.S. Credit Derivative Product Companies Review and 2008 Outlook," Moody's Structured Finance Special Report, March 2008. (Forthcoming)

6. "2007 Review & 2008 Outlook - EMEA Collateralised Debt Obligations: Strong First Half in 2007 Diluted by Global Credit Crisis; Lower Issuance Expected in 2008 Reflecting Continued Market Disruptions," Moody's International Structured Finance Special Report, February 4, 2008.

7. "Understanding the Consequences of ABS CDO Events of Default Triggered by Loss of Overcollateralization," Moody's Structured Finance Special Report, January 7, 2008.

8. "Impact of Subprime Downgrades on OC-Linked Events of Default in CDOs," Moody's Structured Finance Special Report, November 1, 2007.

9. "U.S. Subprime RMBS 2005-2007 Vintage Rating Actions: January 2008," Moody's Structured Finance Special Report, February 1, 2008.

10. "U.S. Alt-A RMBS 2005-2007 Vintage Rating Actions Update: January 2008," Moody's Structured Finance Special Report, February 1, 2008.

11. "Moody's Updates Loss Projections for 2006 Subprime Loans," Moody's Structured Finance Special Report, January 30, 2008.

12. "Syndicated Bank Loans: 2007 Default Review and 2008 Outlook," Moody's Special Comment, January 2008.

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